is due us from you by reason of the accusation of sharp practices contained in the last paragraph of your letter. Even though you wrote me personally, I cannot help but resent any such reflection on my institution or my associates." This closed the matter as far as any direct relations between Cargill and the National City Bank. John Sr. instructed all company personnel to cease relations with the bank and forthwith reduced the account to a balance of 1 cent.

Probably for reasons of both prudence and pride, John Sr. decided to put together a packet of all of the materials in the controversy—the letters and telegrams to and from the bank—and then circulate these packets among several of his contacts in other banks in the Cargill orbit. One of these went to his long-time friend, Bert Lang, at the First National Bank of St. Louis. Lang expressed surprise at the set of events, asked for "the privilege of retaining your enclosures for our permanent file, thus putting us in a position to quote facts should a sincere and legitimate inquiry come to us." John Sr. must have worried that the termination of Cargill's relationship with the National City Bank would become known by other banks and result in prejudice against Cargill. Lang assured him that he did not believe this would happen: "After going through the file very carefully, I can assure you in all candor that we see nothing in the whole transaction that could possibly create any prejudice on our part against the good name of 'Cargill.' "

In John Sr.'s file on this incident, there is an unsigned fragment, apparently sent to the National City Bank from an officer in a Minneapolis bank. The letter noted that John Sr. had asked this bank to review the dossier; the bank officer continued:

> I selected our Vice President, Mr. J. G. Byam, who is at the head of our Foreign Exchange Department, to do this. Mr Byam tells me that he undertook this with a strong feeling that the Cargill Elevator Company through some misunderstanding must be in the wrong, but very greatly to his surprise finds that their position has been entirely correct and that he does not see how they could possibly have done differently. He agrees with Mr. MacMillan that the internal evidence shows conclusively that neither you nor Mr. Simonson had ever checked into this affair and I strongly urge that you do so for, unfortunately, anyone going through this file carefully cannot but impugn the good faith of your Foreign Exchange Department.

Whether this letter was, indeed, sent cannot now be reconstructed from the remaining records.

By this time, in late 1932, Cargill's banking crisis of March 1933 was just around the corner. Whether this National City Bank incident had any influence on this is not clear. At any rate, even before Cargill's drawn-out difficulties at that time with the Guaranty Trust (discussed later in this chapter), a relationship had been severed with another New York bank.[11]

The Election of FDR

By 1932, the country was in dire straits. The unemployed numbered upward of 13 million, with impoverished families in cities and rural areas alike eking out a living under dispiriting prospects. William Leuchtenburg estimated that as many as 2 million people "were wandering the country in a fruitless quest for work, or adventure or just a sense of movement." Hobo jungles had sprung up all across the land. On the outskirts of many big cities, the homeless had thrown up makeshift shacks, soon known as "Hoovervilles." Those lucky people still employed, most likely already working part-time, quaked for fear that they too would be laid off. Clearly, the country had lost faith in Herbert Hoover. "As the party in power during hard times," William Leuchtenburg commented, "the Republicans faced almost certain defeat in the 1932 elections."[12]

The outlook for the farmer was, if anything, even more dismal. The crop year 1930–1931 had been excellent, so world wheat stocks on August 1, 1931, were some 300 to 350 million bushels above normal—"a persisting super abundance of wheat in the midst of intensified economic depression," wrote the *Wheat Studies* editors. Once the Farm Board had ceased its stabilization purchases, there was a sickening sag in wheat prices. From about 60 cents in May 1931, the average farm price dropped to 36 cents in

Franklin D. Roosevelt campaigning for president (Minnesota Historical Society).

July and even lower in August and September. There was a small recovery in the fall, but the trend continued downward into 1932. With the weighted average for the crop year some 37.9 cents, the farm value of the crop, including that held for seed, came only to $282 million, the lowest since the crop year 1894–1895.[13]

By the end of 1931, many farmers had given up on the Farm Board, which by this time was moribund. In the depths of their desperation, some farmers tried to take matters into their own hands. In Iowa, a group under Milo Reno, a bombastic National Farmers Union leader, banded together to declare a "farm holiday" during the spring and summer of 1932. They espoused an essentially nihilist thesis: "Stay at home—buy nothing, sell nothing." The movement spread to neighboring states. In truth, they did more than "stay at home," for angry mobs soon traveled the farm roads, not infrequently dumping milk wagons and parading the streets of the farm towns with placards such as "In Hoover We Trusted, Now We Are Busted."[14]

These were isolated events, but later there were more. The main battles fought in the spring of 1932 were by those once again searching for remedial legislation from the federal government for the "farm problem." The McNary-Haugenites resurrected their oft-rejected plan involving the

"Pickets dumping milk," Wisconsin, c. 1937 (The Bettmann Archive).

equalization fee; the export debenture plan still was the favorite of the Grange. The National Farmers Union, more radical than the Grange or the Farm Bureau, came forward strongly for outright price fixing by the government, with a built-in guarantee to the farmer of his "cost of production" plus a profit.

By the spring of 1932, it seemed highly likely that Franklin D. Roosevelt, the governor of New York, would be the standard-bearer for the Democrats. Advocates of the various farm plans beat a path to his door, hoping to have him commit to them. Roosevelt adroitly parried all of their remonstrances; by the summer of 1932, he seemed to be leaning toward a fourth way out of the farmer's dilemma that came to be called the "voluntary domestic allotment" plan. Rather than subsidizing or encouraging exports from a surplus domestic crop, this plan aimed at reducing production as the essential remedy for agricultural ills. The plan, with its avowed purpose of constraining supply (and therefore, by definition, constricting "free" markets), was an instant anathema to the grain trade industry and much of the business community.

Roosevelt handily captured the nomination at the Democratic National Convention in early July and in his acceptance speech outlined his thinking on the farm problem in terms of the voluntary domestic allotment plan. Already the master politician (although many had not yet recognized this), he continued to keep everyone guessing about his thoughts on policy initiatives.

To the grain traders, it was a Hobson's choice between Hoover and Roosevelt—the former had botched the agricultural situation with his ill-fated Farm Board, and the latter professed market-constraining approaches to the same problems. John Sr. probably mirrored the majority feeling in the trade when he wrote Morris Barker: "I have no sympathy whatever with the Democratic candidate nor his machine. As far as I can make out he is very much the same type as Mr. Hoover, and I am afraid equally dangerous. When it comes to a choice of whether Northern Bureaucrats or Southern Bureaucrats are going to run the country, as far as I can make out they are all equally dangerous."

On the other hand, Ed Grimes saw the Roosevelt nomination as a potential plus for Cargill, given that the governor had been present at the inauguration of the Albany deep-sea port the previous June. Grimes wrote a fellow member of a Chicago Board of Trade political action committee about the great amount of grain that was being shipped through Cargill's unit: "Just what appeal this would have to Governor Roosevelt in his capacity as nominee for President, I do not know, but I do think that the design of this plant, together with other improvements and refinements . . . have been of great benefit not only to the farmer but to the consumer . . . most of the economies are not retained by us but are passed on to our

patrons." Grimes was unclear about how to get this notion in front of Roosevelt without sounding self-serving.[15]

Despite forebodings, the grain trade had remained surprisingly profitable during this preelection period. With the Farm Board out of the picture (except for its own sales of grain into the market on a staged basis), the industry was free to trade in its pre–Farm Board mode. Cargill had another good year, although not quite as successful as the previous one. When the books were closed on the crop year in June 1932, the Company posted a gross profit in the Wheat Account of some $794,000, down just a shade from the previous year. Coarse grains were not nearly as successful, showing a net loss of $169,000. The net income for the crop year 1931–1932 was $482,000 a considerable fall from the record previous year's profits of $1,302,000, but nevertheless a satisfying showing.

Cargill's "Economic Analysis"

On November 8, 1932, the country registered its view of the Hoover presidency. Franklin D. Roosevelt achieved an overwhelming victory over the incumbent; the popular vote of 22,822,000 to 15,762,000 gave FDR an electoral margin of 472 to 59. The Democrats also gained substantial majorities in both houses of Congress. At the top of the agenda for the new President was the sickness of the country's economy.

Four days after the election, Cargill decided to make public its own economic views in a remarkable nine-page printed document marked "strictly confidential" but given wide distribution among the business community and state and national politicians. No author is noted, although internal evidence shows considerable portions were written directly by John Jr. Certainly, it represented his own thinking.

The foreword began by reiterating John Jr.'s view that the grain trade was at the center of all business. In the past, people had not appreciated "the controlling importance of grains in the economic order. . . . There has been an ever-awakening consciousness of the role played by the price of grains."

The rest of the document ranged over a whole set of economic criticisms, highlighting Cargill's alternatives to existing policies. A central thesis involved price levels, for it was Cargill's "studied conclusion" that "determined efforts be made to bring the price of everything, especially labor and freights, down to this level, rather than to try to bring the levels of grain and other raw materials up." The high tariff—the Hawley-Smoot tariff bill—"was a blunder of the first magnitude." Efforts to prevent wage reductions "could only result in prolonged unemployment." The attempts by the government's Reconstruction Finance Corporation to forestall railroad receiverships "has prevented necessary rate readjustments."

Further, "the public works program at 1928 wage levels was a squandering of the public money."

All of this was related directly to gold, for "gold differs but slightly from any other commodity. It ***obeys the law of supply and demand, just as does every other commodity***" (emphasis in the document). The paper had a chart of "the value of gold" from 1798 to 1932, designed to show that gold prices produced swings from the business cycle just like other commodities. Cargill's belief in the "quantity theory" of money, the very set of ideas propounded by Irving Fisher at Yale University when John Jr. took that eminent economist's course, was reiterated, the ending sentence of that section emphasized with capitals: "IT IS OUR BELIEF THAT THE QUANTITY THEORY OF MONEY IS PERFECTLY SOUND AND DECIDEDLY APPLICABLE TO THE PRESENT SITUATION."

What was needed for recovery was to restore public credit "by drastic economies," making sharp reductions in taxes, "which today threaten property confiscation." Efforts at class legislation "destroy the basic idea that has made this country great, namely, the idea of individual responsibility and accountability." Finally, "relief measures, if any, should be directed toward agriculture, which . . . has borne the brunt of the deflation—not labor." The paper throughout was vintage free market thinking; indeed, a sentence set apart from the others for emphasis stated explicitly: "What is needed by economists and politicians today is a close study of the principles first clearly enunciated by Adam Smith."

Austen Cargill, drawing on this document, gave a simplified version of the thesis on a popular radio program, the "Farm and Home Hour" of the National Broadcasting System; John Sr. reported to Emma Hanchette, "Austen's speech over WGY made a wonderful hit." But would this Cargill economic manifesto be that of the new administration?[16]

Cargill's Crisis with the Banks

There was a long interregnum between Roosevelt's election and his inauguration on March 4, 1932 (this date was changed to January 20 in 1933 by the Twentieth Amendment to the Constitution). The extended "lame duck" period succeeded in heightening uncertainty. It was not just that the economic situation itself was deteriorating daily; there also seemed to be a burgeoning fear in the country, breeding more and more pessimism. Bankers were among the most pessimistic.

Just after 1933 began, John Jr. and wife Marion MacMillan took a sea vacation to Cuba and its environs aboard a United Fruit Company steamship. John Jr. wrote his father and mother on January 5: "This is one of the first rests I can remember. The boat is practically deserted." Yet he could not help worrying about the situation back in the country; most of the

letter concerned broader issues—inflation, the new domestic allotment proposal and so forth. Ex-President Calvin Coolidge had just died, and John Jr. commented: "It is a great loss to the country, as he was almost the only possible prospective leader for the Republican party." He ended the letter: "I know we came away to forget business, but it's pretty hard to do so in trying times like these."

Within a month of his return, a crisis of enormous import occurred at Cargill, involving the very bankers who were so pessimistic. John Sr. was still recuperating in California from his heart attack of the previous winter. John Jr., the new general manager, was clearly in charge. With all of the broader issues facing the Company, it probably had not occurred to John Jr. just how potentially serious a banker's loss of confidence in Cargill could be. John Sr. knew this to the roots of his heart—fear of losing credit had always been a great concern, given the large amounts essential to all commodity traders at the peak of the buying season.

On January 7, 1933, the Continental Illinois National Bank and Trust Company of Chicago wrote to Cargill's treasurer, asking for information on the Company's current position and the total amount of bank indebtedness, including where this was owed. John Jr., considerably less diplomatic than his father, wrote back a rather sharp refusal:

> It must be evident to you that for a grain merchant to disclose his inside information where there might be the possibility of competitors knowing and taking advantage of such information is something that we are entirely unwilling to do. If you understand the grain business at all you know that there has been a very satisfactory carrying charge to May. . . . As far as our profits go I am only willing to put in writing the statement that they are perfectly satisfactory and materially better than what we told you in November, and our bank indebtedness less.

John Jr. did not even realize how untrusting his conclusion must have sounded: "I think you will quite understand if you will think this over that any letter which would give the character of information which you have asked for could leak, not only in our own office but in yours as well."[17]

Over the years since John Sr. had extricated the Company from its Creditors Committee period prior to 1916, Cargill had been able to borrow money on unsecured notes payable. In truth, they were loans on John Sr.'s own personal integrity—it was as if John Sr. had signed every note. On that January 7, 1933, when John Jr. sent the sharp note to the Chicago banker, Cargill had $12,750,000 in notes payable to 19 different banks. There was a $2,000,000 note at the Chase National in New York and a similar amount at the Guaranty Trust in New York; three other New York banks and the First National Bank of Chicago had taken $1,000,000 each. There were two Minneapolis banks and one St. Paul bank with smaller amounts, as well at Boston, Buffalo, Albany, Duluth and Omaha accounts.

In November 1930, John Sr. had written John Jr. about the possibility of using "bankers' acceptances," drafts that were issued by companies, backed in this case by inventory; these drafts were "accepted," or guaranteed, by the bank and could be further sold in the financial markets. The process of a bank utilizing acceptances was regulated by the Federal Reserve Board. John Sr. had talked with the Guaranty Trust at that time, but the officer there "says they would surely reduce our line of credit if we should adopt a policy of borrowing on stocks in our own elevators. Further, if such a system were to be used with one bank, the opportunity would need to be spread around among all the banks." John Sr. had written a bank officer at Irving Trust Company in August 1930 about this very point: "We have never used Bankers' Acceptances as against warehouse receipts in our own elevator, but perhaps someday we can work out that problem so that we would find it advantageous. However, we never like to start a new policy in the midst of our fiscal year. We would want to start it out in advance so that everyone we were dealing with would understand it."[18]

In late January 1933, John Jr. went to New York City, where Brown Brothers Harriman & Co. had offered Cargill bankers' acceptance borrowing. He wrote his father: "They know a lot about us and I am rather anxious for the account." There were complications: the grain used as collateral had to be housed in either a federal- or state-licensed warehouse. "Our acceptance credit," John Jr. wrote, "is going to end up by our being able to place all of our Western houses, except Milwaukee and Chicago, under State regulation. Milwaukee and Chicago, Albany and Ogdensburg will have to come under a field warehouse company, and we will probably use the same one as do General Mills. . . . We are all dead set against making use of the federal Licensing system" (later, the Company's preference *was* for the Federal system).

When John Jr. returned to Minneapolis the next day, an ominous missive awaited him, the first harbinger of trouble. It was from the First National Bank of Chicago, dated January 31, 1933, asking about Cargill's position vis-à-vis notes due over the next four months. The bank officer continued: "However, I have to advise you that our loan committee still has a question mark in mind as regards your new construction and would prefer that you give us terminal receipts of your other houses in the event that you desire to renew your paper" (in other words, to revert to "secured" borrowing).

Once again, John Jr. wrote a rather negative reply: "Our inventories are liquidating in a normal manner and there would be very little inconvenience to us in meeting your views. In fact, if you would prefer that you took up our paper now, please do not hesitate to let us know. As long as there is the slightest question in your minds as to our warehousing being on a sound basis, we think your position is entirely proper." John Jr. then

asked for a date to talk with the officer personally, "when I sincerely hope you will tell me which features are now causing you uneasiness." When John Jr. did visit the Chicago bank a few days later, the conversation ended with the bank withdrawing any further credit on an unsecured basis.

John Jr., feeling tremendous personal responsibility for the credit situation in regard to his father, who was not well and slowly recovering in California, fell into panic. His Uncle Daniel later wrote John Sr. that he had "so positively reassured him on the general situation that he gave up the idea of special blame attaching to him for the loss of that source of credit." Daniel then cautioned John Jr. "that he would have to look for further demands of the same kind. Likewise, I told him pretty sharply that he would have to stop worrying; that there was nothing in this situation for which he was to blame or that in any way reflected discredit upon us, and that therefore he must hold himself in leash. Inside of twenty minutes he was as happy as an infant in its mother's arms."[19]

John Jr. did not himself report the First National problem to his father but did tell him of some similar unease from another Chicago bank and a Wisconsin bank, although he remonstrated that it only "reflects a combination of competitors' insinuations . . . as well as reflecting the general strain in the banking world."

The situation worsened by the day, however, with other banks communicating skittishness about Cargill. John Jr. wrote his father on February 7: "I think you can definitely count out all our Western banks as sources of credit, except our local Northwestern banks. I ascribe this entirely to the continued hammering of competitors and also to the fact that the banking situation in the West is very critical." He also reported that a Continental Illinois Bank officer had spent three days at the Cargill offices, "making the most comprehensive study of our business ever made by an outsider." While Cargill appeared to pass muster with this unexpected visitor, "he did state that our business was not conducted in what the Chicago banks considered an orthodox manner." Finally, in this letter, John Jr. enclosed the unsettling communication of January 31 from the First National Bank of Chicago, which he had chosen not to send previously.[20]

This, incidentally, was the second time in a matter of months that John Jr. had alluded to competitor machinations with Cargill bankers. Running down a competitor with customers and bankers was not unheard of in the industry, and John Jr. appeared to believe that this was indeed happening.

That same day, a letter was on its way to John Jr. from the Irving Trust Company, also asking for detailed information on Cargill finances. Fifteen separate items were requested, a disturbing list. Detailed breakdowns of profit and loss figures for all of the Cargill companies were requested, all of the borrowings were asked for, the list even to include "surplus analysis (full and complete)."[21]

The situation could not have been more ominous. Cargill had large amounts of grain already in storage at its various locations (there were good carrying charge potentials in this period), but if credit was now to be seriously restricted, at least from several of the key banks, much of these grain stocks would have to be liquidated. John Jr. wrote his father on February 14:

> I have not heard further from the First National here. . . . I discussed liquidating at some length with Wakefield last week and he agreed with me that we should not liquidate if we could arrange our acceptance credit, but otherwise he felt it was necessary. We are going on the assumption now that our Eastern stocks must be liquidated and that our Western stocks can be liquidated after the opening of navigation if need be. . . . It would be decidedly to our advantage not to liquidate certain substantial portions. However, we are selling as though everything had to go.

Cargill's efforts to work out the bankers' acceptances soon bore fruit in the West: arrangements were made enabling every terminal except Milwaukee to put its stocks under state-based warehouse receipts. It was a complicated process because the individual banks each demanded to have the strongest, most liquid paper. John Jr. wrote his father on February 15: "I then went over to the Northwestern . . . and was very much surprised about Mr. Decker's reaction, which . . . was that we were allowing our Eastern bankers our most liquid paper and leaving that paper for which there would be a narrower market with our local banks. He did not like the idea at all and wanted to know if I had discussed it with Mr. Jaffray." This was C. T. Jaffray, at that time president of the Minneapolis, St. Paul & Sault St. Marie Railway Company and one of the three Creditor Committee trustees who had been so helpful to John Sr. in the 1909–1916 period.

It seemed urgent for John Jr. to speak personally with Jaffray, and he made an appointment for February 21. He wrote his father: "I spent an hour with Mr. Jaffray this morning and was unable to get a single expression of opinion. I did all the talking, and although he was obviously interested, I was unable to gather anything at all as to what he felt."

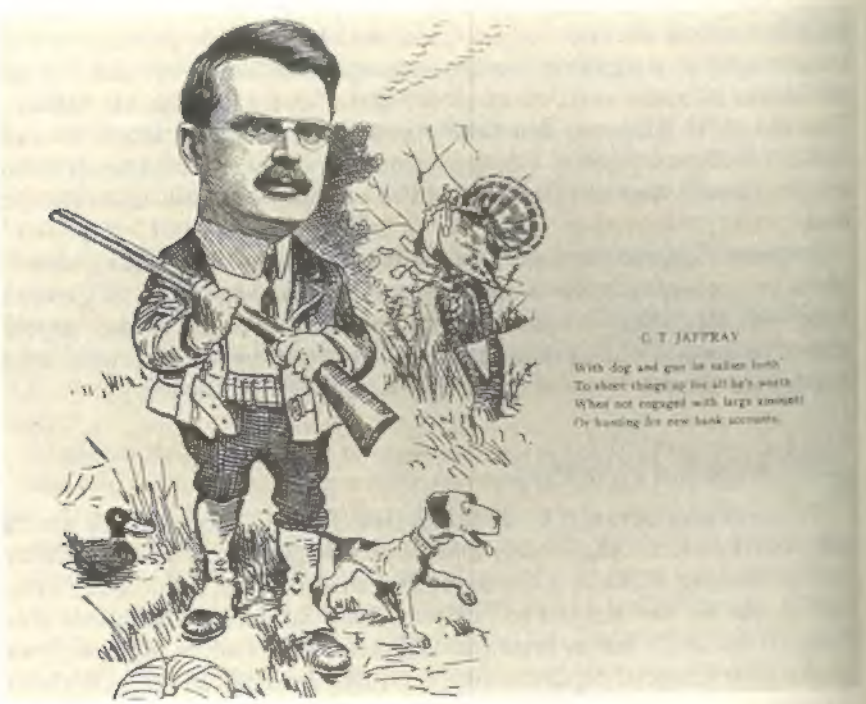
Jaffray Suggests an Outsider

This meeting between C. T. Jaffray and John Jr. (followed by several others in the succeeding weeks) apparently was quite a revelation to Jaffray, and he decided to write John Sr. It was an extremely frank letter. After noting that he had wanted to talk with John Sr. personally "about your financial matters," Jaffray first observed that Cargill had, in his view, "outgrown your financial department." Then Jaffray advanced his main thesis; it centered on John Jr.:

> I know you will take what I say in the way it is meant . . . you know my keen interest in all matters pertaining to the Cargill Company and so I want to say to you that you must get someone with you who can give your finances proper care, who can put you right with your bankers, who is strong enough to say no, and who will accept a place of importance in your organization and at all times be consulted. . . . John Jr. has not the faculty of dealing with banks. His very success in the grain end prevents this and it rather antagonizes the banks, so that he must not be your financial man—and in justice to himself, he should not be required to.

Jaffray urged that there should be "a department of your business in one man's hands." Knowing John Sr. so well, Jaffray apparently suspected that John Sr. might try to fill this position with a lower-salaried man so added that "he must not be a cheap man—but one who will grow into your business as years go on."

The bankers' acceptance efforts ran into further trouble when the Federal Reserve Board raised additional technical questions about application of the regulations to Cargill. Complicating the matter was the fact that in the East there was not as wide a use of "regular" warehouses issuing warehouse receipts. John Jr. immediately approached the New York Produce Exchange as a warehousing agent; however, several of the banks in New



E. R. Buell, Just for Fun: A Port-folio of Cartoons 1915.

York City seemed wary of any such arrangement. There were seven banks involved with Cargill there, and they had held almost two-thirds of Cargill's debt before the troubles started. The Guaranty Trust Company of New York, one of the most important, began to raise further concerns about Cargill at this point. In a letter on February 21, 1933, an officer there wrote John Jr.: "In our opinion the arrangement . . . would not comply with the intention of the Federal Reserve Act. . . . We would prefer not to enter into arrangements for a participating credit unless letter as well as spirit of law is complied with. . . . I question very seriously that the Federal here would sanction the operation as proposed by you."

This letter upset John Jr. terribly; he wrote lengthy replies to Guaranty, attempting to persuade them. The bank situation in the country (indeed, the whole economic situation) had become unsettled. In the 2½-year period since the stock market crash, over 5,500 banks with total deposits of some $3.4 billion had shut down. Several states had already declared brief "bank holidays." John Jr. wrote his father: "The tension in the banking world increases daily . . . the Continental Bank stock in Chicago has taken a big crash in the last two or three days. . . . We are seriously considering moving about a million dollars of cash up to the Royal Bank [in Canada] until this crisis blows over. I would not at all be surprised to see a general banking moratorium throughout the United States within the next week, which might make it very difficult for us unless we had some outside cash." On March 1, John Jr. had seen Jaffray again, who was "obviously laboring under a terrific strain . . . we could not possibly have picked a more inopportune time to have discussed the matter than yesterday."[22]

Endangered Country Elevators

In this letter of March 1, 1933, John Jr. also discussed a serious internal finance problem, the question of what to do about the "frozen accounts" (the arrears) in Cargill's independent elevators. A great many of these independents had been through very difficult times, and a number were on the verge of bankruptcy. John Jr. wrote: "I have been going over Austen's frozen accounts and I find that if we foreclosed it would give us country elevators on an astonishingly cheap basis . . . the thing for us to do is to close out every frozen account and turn the houses over to the line for operation."

This was Austen Cargill's area of the business, and John Jr. continued:

> I have been discussing this with Austen for the past hour and he is, of course, vigorously opposed on the ground that if we did foreclose we would receive such a black eye in the country as Shylocks that the line itself would never be able to buy any grain. What he wants to do is foreclose with the assurance to the people you close out that any earnings from that particular point will be applied against

the indebtedness, and whenever the station works itself out then the point [the elevator] will be handed back to them. I cannot see this at all and I think now it is imperative that we take over these houses and operate them for our own account.

Six days later, he wrote again on the same issue: "I am decidedly opposed to Austen's scheme. . . . I don't fear the political effect of closing them out, as does Uncle Dan." To John Jr., the bottom line of profit was dominant; acquiring money was a personal validation. With Cargill's own banking crisis so prominent, the matter remained unresolved for the moment.[23]

The Bank Crisis Worsens

"Let me assert my firm belief," stated Franklin Delano Roosevelt in his inaugural speech on March 4, 1933, "that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror." This sentence, the most famous of that noteworthy speech, has been considered by many people the turning point of the depression. Such a belief oversimplifies, of course; there were to be eight years of New Deal tinkering with the economy before the pre–World War II buildup brought back some economic growth.

Roosevelt moved quickly. Just one day later, March 5, he prepared a proclamation, to be effective March 6, declaring a four-day national banking holiday and suspending all transactions for banks, trust companies, credit unions and building and loan associations. Only scrip was to be allowed during the holiday. This galvanized John Jr. immediately to send detailed letters to each of the seven New York banks, elaborating his plans for the bankers' acceptances, once they were instituted, and pleading with the banks to work with Cargill in the interim. Guaranty Trust had continued to do so, granting Cargill some short-term credit. The key question, of course, was the longer-term relationship, and on March 7 Guaranty sent John Jr. a bombshell. It was a one-sentence telegram: "We are not agreeable your suggestions" (i.e., those involving the use of bankers' acceptances).

John Sr., notified of this development, immediately sent a telegram to John Jr.: "Am greatly startled at rapid developments. Would you suggest that I return home?" John Jr. demurred on his father's return but continued: "We are disturbed because Rawls [the Guaranty officer] in New York did not think much of our suggestion." Edna MacMillan then wrote John Jr., and the latter replied to both of his parents: "Mother's letter yesterday was wonderfully helpful at a very critical moment, as I was nearly frantic waiting to find the bank's reaction to the information we gave them Saturday."

The Chicago Board of Trade itself had closed until the bank holiday could be resolved. Overall, however, the situation in the country seemed

to be more optimistic—Roosevelt's rapid-fire actions in those first few days had allayed many fears. Unfortunately, Cargill's own situation with the banks had worsened. On March 10 the Irving Trust Company sent John Jr. a letter asking for a perturbing number of details about Cargill's overall financial position at that moment. John Jr. wrote his father of his decision: "We had a request from the Irving for specific information about our position, which indicates they are uneasy about us, so I am going to New York at once to give them the information they want in person. It is also probable that if they are uneasy the other New York banks are also, and they certainly should be called upon before the markets open."

On the surface, the situation had seemed somewhat calmer; John Jr. wrote on March 11: "Austen and Anne came over to dinner last night and we had a very pleasant evening at bridge. We had one rubber where we finished exactly even, and where Marion and I attempted five small slams and failed each time."

But this surface jocularity belied John Jr.'s real feelings. Daniel MacMillan wrote John Sr. in more detail on March 14 about what had happened when the letter was received:

Leo [Sheehan, John Jr.'s secretary] tells me that Junior wrote you as to the cause of his going to New York. Probably it was the wise thing to do. In any event, I think it was a good thing for him to get away from the office for he was cracking under the strain. . . . The fact that he had to face the Irving Trust Company and go over the situation in general with them seemed to unnerve him and again he went to pieces badly. He retched and vomited greatly for a few moments. As soon as I was wise to what was going on . . . I went out and read over the letter and came back and positively assured him that there was nothing in the letter that was not ordinary good prudence in times such as these, but necessarily the banks had very largely lost their capital in the debacle and it was only natural for them under present conditions to take a survey for the strong and weak features of each individual situation. I was able to get his mind switched over onto other subjects and in twenty minutes again I had him laughing and joking and feeling as well as ever. . . . It is unfortunate that Junior has these tailspins occasionally, but if I am around to reassure him he straightens right out. . . . As you know, he has a tendency to keep himself under high tension all the time, and these vomiting spells are merely warnings to him that he has been overdoing the situation.[24]

The New York visit was sobering for John Jr. His brother Cargill accompanied him, as did James Dorsey, the Company's outside counsel. Cargill MacMillan visited some of the smaller accounts, but John Jr. and Dorsey went immediately to the Guaranty Trust (which John Sr. had always considered as Cargill's "first bank of account"). John G. Peterson, then a Chase National Bank vice president and later a Cargill employee, subsequently recounted the Guaranty visit: "Apparently there was a new VP handling Cargill's a/c, and at that time he was allegedly involved in a bad situation in Detroit. The result was that John Jr. & Dorsey cooled their heels around the Guaranty for several days without result. . . . John Jr. &

Dorsey felt they were getting the run-around. John Jr. decided to go to their next bank, Chase, and make an appointment for next morning."

This meeting at the Chase the next day was critical, for it not only brought Cargill into a new relationship with the Chase National Bank but also introduced John Jr. for the first time to Peterson. The latter was one of Chase's younger vice presidents, a contemporary of John Jr. and like him an Ivy League graduate (Brown University). He was Chase's specialist in commodity financing and a member of the bank's Foreign Department.

Peterson was called into that first meeting by one of the senior vice presidents, Hugo E. Scheuermann, who asked for his advice. Peterson described his answer: "I suggested the company's method of borrowing was obsolete. I told him about a not unusual plan which appealed to him. I suggested that since I needed a lot of information about location of their elevators . . . they go with me to my room and get right to work."

It turned out that what Peterson had in mind was the bankers' acceptance idea, but he was so persuasive and knowledgeable about the issues that he made an instant impression on John Jr. and Dorsey. While the use of the acceptances for grain in public-warehouse storage seemed quite straightforward, there were other issues that troubled Peterson. In particular, grain in transit on the Great Lakes and grain left on board ships for winter storage could not be handled by the public-warehouse vehicle. Peterson continued:

> I asked John how they handled their shipments . . . he answered that they had a wholly-owned subsidiary, Cargo Carriers [CCI]. I suggested that they could trustee the stock to officers in their local banks that handled their account. Cargo Carriers would exchange its custodian receipts for warehouse receipts in the West and re-exchange warehouse receipts in the East for its custodian receipts—bushel for bushel basis. . . . In the case of winter storage, Cargo Carriers would give to the bank the corresponding lake bill of lading to be attached to its custodian receipt and when the grain was to be unloaded, Cargo Carriers get them from the bank on trust receipt.

Peterson, in his memoirs, also claimed that he suggested the New York Produce Exchange to John Jr.; we know, of course, that John Jr. had already thought of this possibility. Peterson seemed to have a penchant for claiming most successful financial ideas as his!

Peterson next suggested that a consortium of banks be put together, with Chase as lead bank, for a large-scale revolving credit—Peterson suggested a figure of $20 million. Peterson took the whole proposal to Scheuermann: "I believe Hugo consulted with Irving [a Chase senior officer], who wanted a higher rate, commission being the same at all banks. Hugo told me the slightly higher rate and the substitution of a cash deposit of 15% for the elimination of the AE [accommodation endorsement], and while the upper limit of the credit was set for $20,000,000 there was to be a clause to the effect that when total borrowing reached $13,000,000 the manager was to be consulted."

This is just what happened. Peterson was able quickly to put together a small group of banks, a combination of, as Peterson put it, "my banking friends." John Jr. was also to offer participation additionally "to their regular banks of account." By this time, John Sr. was there to corroborate the plans, as he had crossed the country by train to lend support. Peterson relished the process:

> Among my friends, Ruth, vice president of the Philadelphia National Bank, took $1,000,000 and my friend Hwoskinsty [spelling unclear from handwritten manuscript], VP of Central Hanover, took $1,000,000—took sight unseen. I offered a part to my old friend Chet Johnson in the Chemical but he made the mistake of giving the agreement to a young lawyer to read, who came to see me with copious notes of what he wanted to see in the agreement. I told him the practice among banks was to accept agreements drawn by known law firms. I didn't intend to open the door, so I withdrew my invitation. I had to go to Kansas City and I got the Bank of Commerce to participate for $800,000, which came out of Chase's part of the $5,000,000. Irving Trust was shaky and came in only after sending a certified public accountant to check the books. But the most shock came when John Jr. telephoned Hugo [Scheuermann] that he was having trouble with his local banks.

Scheuermann volunteered to help on the Twin Cities banks by going personally to meet with their executives on their home ground. A few days later a whole group of Minneapolis and St. Paul bank presidents assembled in a meeting chaired by C. T. Jaffray. Peterson was there too and described Jaffray as "a big, strong, athletic type, accustomed to being the boss in all gatherings, even of his peers, and perhaps good reason, for nearly every business in Minneapolis owed him gratitude, especially Cargill. . . . He was an imposing man, accustomed to obeisance." The meeting went well, and after a full accounting by Scheuermann, the local banks each seemed willing to take a piece of Cargill's consortium.

By the second week in June, the whole arrangement was in place. A total of $13,500,000 was established. For a while, this fixed upper limit constrained John Jr. more than he wished, the previous approach of unsecured credit being considerably more free-wheeling. To establish an independent entity for the borrowing and for providing independent bonding capability, Cargill Elevator Company was legally separated from two of its subsidiaries (Cargill Grain Company and Cargill Grain Company of Nebraska), and a voting trust of four outsiders, headed by John Peterson, was put in place for both of the latter. Cargo Carriers, the Cargill entity established in 1930 for lake freight and insurance purchases, then was used as the independent entity necessary for the bonding of in-transit shipments.

The participation of the various banks had to be worked out, not without some difficulties inasmuch as each had its own competitive concerns. A "commitment commission" of 0.25 percent was to go to each bank, plus

interest on loans at 1.5 percent over prime bankers bills or 0.5 percent over the New York Federal Reserve Bank rediscount rate, whichever was higher. Cargill agreed to maintain a 10 percent frozen cash margin, together with a further cash balance of another 10 percent. As custodian, Chase was to be paid an additional "custodian's fee" of 0.25 percent. The arrangement was called the Chase Syndicate by the various participants.[25]

A number of banks not in Cargill's previous network agreed to join the syndicate (for example, the Omaha National Bank and the National Commercial Bank & Trust Company of Albany), as well as the full set of Minneapolis and St. Paul banks, together with the group in New York City that the Chase, through Peterson, had involved. Among the latter, however, the Guaranty Trust was conspicuous by its absence.

This hurt John Sr., for he had always considered the Guaranty as Cargill's senior bank. Now he began to brood about what he felt was a slight. His hostility toward Guaranty began to grow, later to surface.

Austen Cargill Prevails

With the Chase agreement in place, the problem of the close-to-bankrupt independent country elevators needed to be resolved. Rather than foreclosing "on an astonishingly cheap basis" (John Jr.'s earlier proposal), the final decision adopted was Austen Cargill's. He proposed that these country elevator owners sell their inventories to Cargill and, after applying the proceeds to their existing account, transfer the balance due into demand notes secured by the elevator facility. Then the elevator would be leased to Cargill, with the duration of the lease to continue until the notes were paid off. Part of the net profits would revert to Cargill as a rental; the remainder would be applied to the indebtedness. On full repayment the elevator would be returned to its original owner.

Some 79 of the independent country elevator operators immediately accepted the proposal, just about all of the endangered group. The elevators themselves were variously renamed as "community elevators," generally with the name of the town also in the title. As *Cargill News* put it in its November 1933 issue, "the former manager . . . now acts as our agent and is a part of the Cargill organization." In this same issue, the entire group of 79 were listed, and the editor commented: "We are pleased to introduce the following." A proponderance of these were small elevators (in the 20,000–30,000-bushel range), and many were quite antiquated. This set of elevators was placed in a separate unit in the Cargill organization, the Leased Line Department, with Austen Cargill in charge. The Company subsequently reaped many accolades from the farming communities involved for its temperate approach with the independent country elevators and enormous loyalties from their owners.[26]

Assessing Cargill's "Bank Crisis"

The remainder of the year 1933 was calm in the firm's banking relations. Once the Chase syndicate had been put in place, credit was not itself a significant issue. The agreement was renewed the following May (1934) on similar terms, including Chase's 0.25 percent payment.

In the final analysis, perhaps the single most important feature of Cargill's banking crisis in early 1933 was not the loss of banking relationships with the First National Bank of Chicago, the First National Bank of Boston, the Bank of Manhattan and Guaranty Trust, nor even the Chase National syndicate agreement itself. In terms of the longer run, the summer of 1933 brought a new person to the Cargill top management group, none other than John Peterson himself. The C. T. Jaffray letter to John Sr. concerning John Jr.'s shortcomings in dealing with bankers must have made a powerful impression on John Sr. and excited memories of Will Cargill's financial ineptitude. There is no evidence in the records of exactly how the Peterson relationship was originally conceived. At first, Peterson had sat with Cargill as Chase's employee—for the Chase demanded such representation. By August 2, 1933, Peterson had resigned from Chase National (with its blessing) and had accepted a position as vice president of finance for Cargill. The appointment to a post of vice president from the outside was unprecedented in Cargill history. Charles S. McCain, the chairman of Chase, wrote John Jr.: "Frankly I do not know where you could have gotten a better man for what you have in mind than he is. We did not feel that we should stand in his way and it was only that which actuated us in consenting to his going."

Peterson made it a quick break and was on the job at Cargill by late August. He brought to the Company a number of precious skills, some not present in the organization before. First, he had an intimate knowledge of and friendship with the banking community, a fact that he seldom allowed to go unmentioned. His early letters back to the Chase were masterpieces in allaying any concerns on the part of the New York bankers. Late in September he wrote: "From my viewpoint you do not need to have any worries about this Cargill credit and if at any time you would like to know about it when you are discussing your central liability babies I will be very happy to show you that everything is all right." He ended the letter with a self-conscious facetiousness that he often adopted with members of the banking community (but not otherwise characteristic of him): "Everybody is trying his best to make life here very agreeable and pleasant for me. Even the gangsters of St. Paul put on a big show to make me feel that I was right at home."

A few days later, the Chase officer apparently became worried about

margins on deposit with some of the futures brokers through whom Cargill was dealing, and Peterson wrote back: "Now I do not want you to be disturbed about the money we have up with these brokers. The names are all good names, and the net amount in any one case is not sufficiently large to cause us to lose sleep at nights or to give you concern as to the goodness of your loan. . . . I want to reiterate that we are not trying any 'monkey business.' "

John Peterson was not only a clever representative of Cargill with the bankers but was also an excellent finance man (fulfilling the C. T. Jaffray hope), innovative in his approach to things, positive and direct, certainly willing to speak his mind with both John Sr. and John Jr. His eastern Ivy League background brought respect from both of them. His past experience—and his ego—allowed him to speak with authority. As his memoirs indicate, he claimed much as his own doing; he believed he had had a singular part in "saving Cargill," although something like the Chase syndicate was already in the wind and probably would have eventuated, Peterson or not.[27]

The country's banking crisis, at least in its narrower sense, ended quickly. The Emergency Banking Relief Act was introduced, passed and approved by Congress in a single day, March 9, 1933; this quick action by Roosevelt succeeded in checking the money panic. Later that spring, Congress added a more permanent piece of legislation with the Banking Act of 1933 (the Glass-Steagall Act). This gave heightened power to the Federal Reserve Board to intervene in the markets to prevent speculation and established for the investor (and the banks) the respected Federal Bank Deposit Insurance Corporation—the FDIC.

Cargill's own banking crisis had largely been resolved by the Chase syndicate arrangements. In truth, once the momentary country-wide banking panic had been ameliorated, Cargill's substantial strengths would have rapidly made it again attractive for bank credit. The Company was in a strong position in its fundamentals. Despite the tension of the period, the business results for the crop year 1932–1933 were outstanding. Net profit was again over $1 million ($1,056,000). Cash reserves had jumped from $1.3 million the previous year to $4.1 million, of which $3.6 million was required by the syndicate agreement. As John Jr. put it to Bert Lang, "we . . . consider it the most successful year in the history of the business."

The firm paid dividends on the two preferred stock issues but, surprisingly, held back the common stock dividends "due to the unforeseeable outcome of political experiments and to the disastrous condition of the new crop." The dividend was finally voted on December 28, 1933. In sum, Cargill's own inherent strength saved it during the bank crisis of February and March 1933.

That was not the Company conventional wisdom in subsequent years, however, for Peterson never let anyone forget that it was *he* who had saved the company. Julius Hendel expressed some of the complex feelings that the organization had about John Peterson when he (Hendel) was interviewed in the late 1950s in preparation for a 1960 Cargill history. Hendel indicated that "John G. was a hard man to work with. His attitude was that he did Cargill a favor in forming the syndicate. It took him a long time to become a member of the team. He pressured me, my grain merchandisers and even the MacMillans by acting as though he represented the banks, rather than Cargill. He was hired to give the Company a banking attitude similar to that of John Sr.'s and he did that job well. But, thanks to John G., we lost a lot of good men, who felt that life was just too short to take that kind of pressure." Hendel also spoke to the relationship between Peterson and John Jr., which became so close: "Peterson helped hold down John Jr., who was quick, resourceful, intelligent and ahead of everybody else but who was also too impetuous. Peterson was a buffer between the banks and the operating people but he hurt morale."[28]

From the start Chase kept a tight rein on Cargill. The constraints of segregating a percentage of the Company's cash proved a severe limitation in the summer of 1933. Cargill MacMillan wrote to his brother on June 13: "We are somewhat disturbed here by the attitude taken on our collateral by the Chase Bank. It seems now that the agreement has gone into effect, they are taking an unnecessary technical attitude which may imperil the purpose of the entire agreement. . . . We are relying on you to talk them out of this super-technical attitude, for I understand that their action leaves us with very little free cash."

The Cargill officers, not used to having *anyone* from the outside tell them they could not do something, fretted under the syndicate restrictions all through the summer and fall of 1933. Their self-consciousness was not diminished when Charles S. McCain, the chairman of Chase, wrote in late September: "While on the subject I want to give you the benefit of some rumblings that have come to my ears from other participants in the credit. It is claimed that in some quarters your bank account with these fellows is worked pretty hard. There was comment over the fact that the company was drawing on them against uncollected funds. You will understand I am giving you this in the spirit of helpfulness."[29]

The 0.25% surcharge that Chase had insisted upon also rankled Cargill people. Many felt that although the fee was legitimate right at the start of the agreement because of the tensions of the moment, it had less relevance after that point. Indeed, one of the continuing stories in the Company about Chase's and John Peterson's role was that Peterson had given Chase a special advantage in the agreement and had added the fee in perpetuity,

due, according to at least some detractors, to his overweening friendship with Chase. This allegation seems questionable. The notion of a small surcharge for syndicate management is not uncommon; given Peterson's extremely important role in interacting with the rest of top management at the Company, Cargill, on balance, got a bargain in Peterson.

The "bank crisis" made a lasting impression on Cargill management, most especially on John Jr. As late as 1949, he was referring to it: "My Great-uncle, Sam Cargill, had a saying that 'credit is as delicate as the pupil of your eye.' From my own long experience I know this to be true." In 1925, Cargill's internal revolt had been fed by senior employees of the Company. They were uneasy about John Jr.'s penchant for centralizing management decisions without consultation because he was convinced of the correctness of his decisions. His father had supported him in this.[30]

In 1933, the group of bankers seemed to react in the same way, for several reasons. John Jr. had pioneered with Frank Neilson a revolutionary terminal construction, but neither man had the authority of an engineering degree. The banks expressed uneasiness; he insisted he was right. He, with Julius Hendel, had begun to trade widely in spreads, without the caution that John Sr. would have exhibited. He was interested in internationalizing the Company but had shown naïveté in international currency and had insisted on being bailed out when the agreement was not to his satisfaction. He had refused to give the banks financial details when requested. He had published an economic treatise that was not in the mainstream of thinking. He had shown stubborn belief that he was always right, and he reacted with anger when questioned. In the excitement of the quest he often seemed not to take into account the possibility of failure and potential financial loss. His ego would not allow it. It was this impulsivity, almost a repeat of his uncle Will Cargill, which alarmed the banks in this time of financial stress.

With his father ill and less able to provide a constraining hand on John Jr., the arrival of John Peterson to exert a strong, sometimes heavy-handed financial constraint was quite fortuitous for Cargill. The Company had survived its most serious financial crisis since 1909–1910 and in the process also had gained a new, strong member of senior management.

Montrose, Minnesota

CHAPTER ELEVEN

International Interests: Poland, Argentina, Russia

The specifics in Franklin Roosevelt's inaugural speech on March 4, 1933, were vague, but they contained clues to Roosevelt's thinking. "Plenty is at our doorstep," Roosevelt stated, but the use of this plenty "languishes . . . because rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence." In this, he likely was reflecting the mood of the majority of the country—that much of the ills the country faced had been brought about by the business community's shortsightedness.[1]

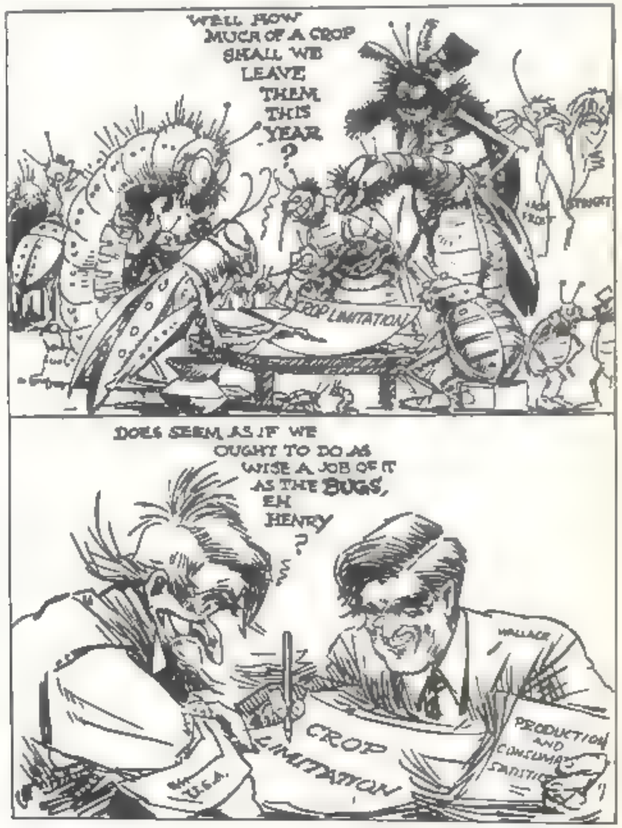
FDR's first moves, however, allayed fears of a radical restructuring of the country's economic apparatus. Following upon the "bank holiday" of March 6 in rapid order, a whole panoply of legislation was passed. By the time the congressional session had finished, on June 16, a comprehensive set of new laws had been put in place. A Civilian Conservation Corps was formed to create jobs for the unemployed, the Tennessee Valley Authority was born, a national employment system was established. There was emergency railroad legislation, further banking legislation (including deposit insurance), a wages and hours bill; even beer and wine were made legal. Full repeal of Prohibition (the Twenty-first Amendment to the Constitution) followed in December 1933. The far-reaching National Industrial Recovery Act, with its National Recovery Administration (NRA), also was passed just before the recess. Included also was the Public Works Administration, a pump-priming effort to increase employment and business activity.

There was one further piece of legislation in this incisive three months-plus period that was to become one of the centerpieces for the first two Roosevelt terms—the Agricultural Adjustment Act (AAA), passed on May 12, 1933. Farm legislation had been debated raucously prior to the inauguration in a special session of the previous Congress in January and February 1933, and the "domestic allotment" proposal had stayed in the forefront.

The House had passed the "Jones Bill" in late January 1933, its central feature being production control. At this point only cotton, wheat, tobacco and hogs were to be so treated. Quickly, the dairy organizations, the rice and peanut growers and others lined up to have their commodities also included. Roosevelt, it was said, was in favor of the allotment principle but thought it might be confined just to wheat. By late February, the Senate had first cut back many of the provisions, then failed to pass the plan, and it died in the session.

Meanwhile, there was intricate maneuvering by many who wanted to become Roosevelt's Secretary of Agriculture. Henry A. Wallace, the Iowa farmer and farm publisher, son of Henry C. Wallace, the Secretary of Agriculture in the early 1920s, was named by the President. Wallace left no doubt of his preference for the domestic allotment plan, particularly the

Speaking of crop control.



Ding Darling, May 11, 1933 (by permission of the University of Iowa Libraries [Iowa City]).

version advocated by two economists, John D. Black of Harvard and Milburn L. Wilson of Montana State Agricultural College. Acreage was to be restricted, a tax was to be levied on the processors of agricultural commodities and farmers would be given parity payments to provide them the equivalent purchasing power held before World War I in exchange for their agreement to limit production. When the Senate seemed to be temporizing on these provisions, a renewed "farm strike" in Iowa and a call for a national farmers' strike, coupled with pressure from the Farm Bureau, quickly brought the passage of the bill. Attached to the Act was a nonagricultural amendment of great portent; this allowed the President to inflate the currency by devaluing the gold content of the dollar and/or to allow the free coinage of silver.

The new farm legislation was indeed revolutionary, the most far-reaching federal effort in the history of the country until then. Predictably, it satisfied some segments of agriculture while bringing howls of outrage from others. Most farmers were delighted, although several farm groups gave only grudging acceptance after their own plans had been shunted aside. Agricultural processors (the millers, for example) vehemently opposed the processing tax that was to pay for much of this program. The grain trade saw the legislation as a constraint on supply and upbraided the administration for what they saw as an attack on free enterprise. In the main, however, the farmers, who had seen the purchasing power of farm products dropping to about 50 percent of pre–World War I levels and who also faced the "persisting superabundance" (as the editors of *Wheat Studies* put it) of wheat and other farm products, gave widespread support to the AAA.

Wallace perceived a need to move rapidly. Staffing was first priority, and he made a controversial appointment for the first administrator of the AAA. It was none other than George N. Peek, the former Moline Plow Company executive who had written the book *Equality for Agriculture* (with Hugh S. Johnson) and who had become the foremost advocate for the McNary-Haugen legislative efforts all through the 1920s.[2] Peek was combative and autocratic and lasted in the post only seven months. During this period, the major thrust of the AAA program was put in place. Seven commodities were covered in the legislation wheat, corn, cotton, tobacco, rice, hogs and hog products, and milk. These were the farm products in the most severe economic straits. Further, their prices influenced most other agricultural markets.

The AAA efforts in cotton, wheat, corn and hogs were most important, but some of their production control features were highly controversial. The wheat program was the first to be announced, with the White House itself elaborating its broad outline on June 16. The wheat grower could receive three years of a direct "benefit," or adjustment payment, at a figure

Off to the Economic War

Ding Darling, August 23, 1933 (by permission of the University of Iowa Libraries [Iowa City])

approaching 30 cents a bushel on that amount of his land that was needed to produce 54 percent of the average amount of wheat he had produced during the years 1928–1932. To qualify for these payments, the grower had to agree not to plant more wheat in 1934 and 1935 than a specified percentage of his plantings in the base period. This figure could be as low as 80 percent but was actually put at 85 percent in 1934 and 90 percent in 1935. With yields high in this period, the restriction was not going to be great enough to bring production in either 1934 or 1935 below the amount needed for domestic use. Thus, the amount of actual curtailment in wheat was not expected to be very large.

In contrast to the wheat program, there were to be drastic curtailments of acreage and production for cotton. In return for "rental" payments in cash, the growers had to commit themselves to actually plow up before harvest from 25 percent to 50 percent of their acreage. The equivalent of

more than 4 million bales of cotton had been plowed under by the end of the year. Even so, production was still above the previous year; if the plowing under had not taken place, it would have been a record crop.

The decision to physically plow up—destroy—whole fields of cotton antagonized many people. A similar approach for hogs brought even more vociferous outrage. Here the AAA program covered corn and hogs together. First, an emergency institution of 45-cent loans on corn on the cob stored on farms under seal was designed to facilitate a prompt flow of cash into the Corn Belt. As with cotton, such loans were without risk to the borrower, who had the option of paying off the loan and feeding or selling the corn or letting a newly established Commodity Credit Corporation take the corn over in satisfaction of the farmer's debt.

The second provision, one that brought widespread hostility both inside agriculture and out, involved pig slaughter. In the months of August and September 1933, an emergency pig (shoat) and sow slaughter was carried out, both to reduce production and to provide immediate cash help to hog producers. There were graduated bonuses per head for young pigs and premium prices for sows about to farrow. Some 6.2 million pigs and 222,000 sows were killed; about 100 million pounds of edible pork were distributed for relief, with the remaining product going to packers.

Somehow, the vision of a huge, monolithic alphabet agency, the Agricultural Adjustment Administration, murdering tiny little pigs seemed

A farmer slaughters pigs and calves to keep them off the market, c. 1933 (Minnesota Historical Society; photograph by Geppert Studio, Des Moines, Iowa).

inherently wrong to many people. William Leuchtenburg told of the consequences: "The country was horrified by the mass matricide and infanticide. When the piglets overran the stockyards and scampered squealing through the streets of Chicago and Omaha, the nation rallied to the side of the victims of oppression, seeking to flee their dreadful fate." Henry Wallace was rather nonplussed by the widespread attacks and commented: "They contended that every little pig has the right to attain before slaughter the full pigginess of his pigness. To hear them talk, you would have thought that pigs are raised for pets."[3]

The Market Break of July 19–20

The National Recovery Administration (NRA), the showcase of the New Deal plans in 1933, was built on the cornerstone of industry self-regulation. Each industry was to have its own separate "code," with specific regulations on "fair competition" to be constructed by industry leaders themselves. This was to be done under federal guidelines; for example, there were stipulations on maximum hours and minimum wages and a controversial provision enhancing labor's rights to collective bargaining.

For the agricultural industries, the NRA retained jurisdiction over the labor provisions, but the Agricultural Adjustment Administration was to shepherd the specific codes relating to the grain trade (especially the grain exchanges) and the flour-milling industry. Both groups were self-willed bastions of "free enterprise" and militant advocates of self-regulation. The NRA provisions were in place in mid-June, and over the following months the grain traders prepared for the code negotiations, dedicated wholly to preserving the maximum of independent prerogatives for the industry.

Unfortunately, any complacency that these people might have had about being able to mandate their own conditions was put awry by a sudden, severe market break in wheat on July 19–20, 1933. The rapid-fire Roosevelt initiatives in those first Hundred Days generated a substantial inflationary momentum. One of the many places where this was evident was the wheat futures market. On July 19, the *Northwestern Miller* headlined: "Public Buying on Large Scale Whirls Market Upward at Rapid Pace." The article continued: "A flood of small orders from the general public absorbed the light offerings and brought about a runaway market, which paid little attention to anything but its own advance." This speculative interest by the public had also been matched by heightened industry buying, particularly to beat the processing tax, which became effective on July 9. However, on July 18, Secretary Wallace made a speech implying that the situation was less bullish than the active speculators were entertaining. With other bearish signals too, the market all at once lost its heart. In two days

of trading, July 19 and 20, wheat futures prices plummeted, some of the contracts by as much as 31 cents.

The sharp advance, followed by the precipitous decline, came at a sensitive moment for the industry. Instantly, there was a huge outcry about "speculative excesses," and the Chicago Board of Trade (followed by other exchanges) suspended trading for two days. When the market reopened, the CBOT established limits on daily fluctuations and prices (wheat could move only 8 cents; corn and barley, 5 cents; oats, 4 cents).

Even this step, taken by the exchanges themselves under their own self-regulation rules, antagonized many free enterprisers in the industry, Cargill included. In the September *Cargill News*, a set of articles appeared about the events of July 19–20. The "sensational advances and declines" were caused by "the tendency of the general public, (outside of the regular grain trade) to speculate and try to get something for nothing . . . endeavoring to make their own fortune from the misfortune of others." The professional speculator would never let such a severe situation occur, the article averred. The editor then commented on the CBOT action on limits. It was "merely building a dam in the stream," and "unless the law makes it illegal to sell above or below a certain figure you cannot compel a man from following his judgment." As to the newly imposed CBOT restrictions on limits, "it is not the function of an exchange to attempt to arbitrarily suspend every individual's judgment and prescribe his actions for him."

Clearly, the momentum was in the other direction—for more rigorous constraints on the exchanges. On July 22, George Peek, as AAA administrator, called an emergency national grain conference, to convene just two days later. Noting that the AAA was going to "get the farmers' prices up to parity and . . . keep them from falling below that point," Peek warned that unless the industry found mechanisms to constrain such serious speculative drops in price, "you will face legislation next winter which may make what we are talking about now fade into insignificance compared with the restrictive provisions that will be placed upon you." His ending left no doubt as to his feelings: "I urge you with all the sincerity I have in my heart to undertake to do whatever is necessary to clean your own house and justify your existence as the market for the farmers' grain. That's all."

The New Deal had put industry very much on the defensive, and the velvet glove now seemed to many to be more appropriate. Cargill, for one, made a significant shift in its public relations function. Rather than John Jr.'s impatient and impulsive, sometimes even confrontational approach of the Farm Board days, when he advocated that his industry colleagues ought to "stiffen up," the post was assumed by Ed Grimes. The past experience of Grimes was wide, for he had acted as overall watchdog of wages and hours practices within the Company, the physical layout of offices and

terminals had interested him, and he had maintained an intimate knowledge of the overall position of trading in the Company—in all of these functions as advisor to other department heads. His special forte was his ability to sort out implications and relationships, then to send along proposed solutions to John Sr., John Jr. and others for final decision. Grimes had an intimate relationship with the older employees, often acting as an intermediary between the men of John Sr.'s generation and those such as John Jr., Julius Hendel, Frank Neilson and the others. Beyond this, by the late 1920s, Grimes was involved substantially in the broader implications of traffic and rate making and was one of the key contacts with the two exchanges that Cargill had most involvement with: the Minneapolis Chamber of Commerce and the Chicago Board of Trade.

In April 1932, Grimes was elected a vice president of the Company. In July of that year, he was elected vice chairman of the Grain Committee on National Affairs, the key public relations and lobbying entity for the exchanges and the grain trade. This committee included members from 13 exchanges around the country, as well as from the Grain and Feed Dealers National Association. Grimes believed in building consensus, working behind the scenes, using personal contacts rather than high-profile public pronouncements. He was an articulate writer and speaker, often publishing his views in trade journals and elsewhere. When it seemed appropriate to testify in some tribunal, he did so with aplomb, and often his words came to be those of the industry as a whole. While there was a circumspection about his approach that sometimes must have nettled John Jr., the two MacMillans seemed most pleased to leave a great deal of Cargill's public relations in the manifestly capable hands of Grimes.

After the shock of the market break on July 20–21, 1933, the diplomacy of Grimes was never more needed. With pressure on the industry to come up with a code that would satisfy George Peek and Henry Wallace, the Grain Committee on National Affairs strove to draw all of the exchanges into a compromise agreement that would placate the hardliners among the grain traders yet satisfy the equally rigid Department of Agriculture officials. There was foot dragging on the part of the Chicago Board of Trade, particularly by those in the CBOT who vigorously objected to the proposed elimination of options (called then "indemnities," or "puts" and "calls"). George Peek continued an unbending position throughout and at one point in early October seemed to be planning to go ahead without any approvals from Chicago. Grimes felt this unwise and wrote the Washington representative of his Committee: "It is unfair and unjust to Chicago, after the good sportsmanship and splendid cooperation that they have shown in this situation, to exclude them from the conference, and my wire to Mr. Peek was merely an appeal to him to permit them to be represented. . . . I am anxious to maintain harmony in all groups of the industry, believing that by working together we can achieve the best results." Fortunately, Chicago finally agreed to the provisions.

The shocked industry, knowing that it was under the gun to come up with an NRA code that would satisfy a legion of critics, still argued vehemently to retain as high a degree of self-government as possible. When the final version was agreed upon, on March 20, 1934, the changes were far less drastic than had been expected. Trading in indemnities was barred, and requirements were placed on margins. However, administration of the code was left in the hands of the industry, through a code authority of seven members to be appointed by the Grain Committee on National Affairs (the industry trade and lobbying group).

The constraints were low key, but many in the industry were hostile toward even this degree of control. Peter Carey, the president of the CBOT, said, "It is so drastic that many of our people honestly believe its provisions will not permit the market sufficient facility of operation to distribute the grain to the farmers' advantage." The organized farmer groups were generally unsympathetic to the code; the American Farm Bureau Federation passed a resolution condemning it for failing to reduce speculation in grains. However, as Joseph S. Davis, one of the respected chroniclers of the wheat story of the 1930s, put it, "fears that the Code might prove so onerous a burden on markets as to reduce sharply the trading and futures appear to have been unfounded." The constraints on daily fluctuations remained in the hands of the exchanges and were called upon only infrequently after the code was promulgated. It seemed that the exchanges had engineered a miraculous escape, and an only slightly fettered free enterprise was to continue apace.[4]

In late December 1933, Ed Grimes wrote a widely acclaimed article in *The Magazine of Wall Street*, entitled "Which Way for Wheat Prices?" It was diplomatic and temperate, making a strong case that farmers were finding the production limitations onerous and that the higher prices that had been experienced through the year for wheat were also provoking consumer resistance. John Sr. wrote Grimes immediately: "I think it is excellent and yet it is written in a spirit that should not in any way offend any of the politicians." He ended: "What you have been doing has been simply beyond words and I believe the entire grain trade are going to feel the benefits for years to come."[5]

Organizational Tensions

Cargill's board of directors, at the annual meeting on August 14, 1934, made an important decision relating to employee relations: the establishment of the Cargill Pension Plan. It was a program developed with the Metropolitan Life Insurance Company, by which the employees could ac-

cumulate retirement annuities from amounts contributed annually by the Company and with contributions by the employees, too. Every eligible employee could secure an annuity, regardless of physical condition, and the *Cargill News* stated: "It is the intention of the Cargill Companies to make equitable adjustments on all employees whose retirement annuities will not equal 50% of average pay." This proved to be a somewhat overoptimistic goal, for the Company could not sustain financially the 50 percent figure, and some small cutbacks were made later. Even with these, however, Cargill's pension system rated as one of the best in the industry.

Perhaps reflecting his own illness, John Sr. wrote John Jr. in January 1934: "I could . . . see that several of our executives were tired and I hope you can arrange vacations for them." In another letter, to Ed Grimes, John Jr. wrote: "Some way must be found to lighten the burden, particularly on the work of Hays, Neilson and Hendel." He suggested one possible problem, that the Company had no person active as sales manager: "We have not had any one person here through which all of the petty problems growing out of our various problems could clear, so that we were having more or less constant friction between men already tired out from a strenuous year." Harold Tweeden was being groomed for such a role until the idea disappeared with his untimely death in July 1933. So John Jr. recommended appointment of Fred W. Drum, who had first come with the Company in 1906 to head Cargill's new implement department (the Tristate Implement Co.) and later headed the commission department as sales manager. Drum began the new job on February 1.

Yet there was something deeper involved here, for it was apparent that the interpersonal relationships among a number of the top management people were not good. John Jr. had himself fostered some of this competition. He enjoyed argument and encouraged it in others—to a point. Now he took steps to meet the immediate problem. Cargill MacMillan wrote his father: "We decided that the way to correct the lack of coordination between the key executives was not by formal conference. John said he has tried that and that it did not work very well. He suggested that these conferences be informal and that they be held during the lunch hour, so we are going to see if we cannot provide a small lunch room for the key executives, where they will have to meet at lunch every day. We all think . . . that it will cut out a lot of trouble that has arisen from one department head not knowing what another department head was doing."

John Sr. was then on a long ocean voyage to the Far East. He penned a letter from the first port: "I do hope your lunch room will solve the organizational problems that bother. It might be well to include Roy Hoople, for as you know, he and Hays do not hitch together too well." Soon a small separate dining room was established in the Cargill offices, with its capacity only about ten people. It was a useful arrangement and went a

long way toward easing some of the tensions of this difficult period. In the process, it became the forerunner of the morning coffee get-together of top management of more recent periods, again informal and highly informative, one of the more important of Cargill management tools.[6]

This was, incidentally, a time of tension more broadly for Minneapolis, too. The Lindbergh kidnapping in 1933 had been followed by the same kind of threats in the Twin Cities. The Company's long-held desire for privacy seemed now to John Jr. to be an asset against this threat, too: "It is certainly mighty consoling to know that we are not worth while being molested and I am also thankful that we have avoided publicity."[7]

There was also heightened labor unrest in this period. Minneapolis had experienced substantial tensions after the NRA codes came into effect, particularly over the NRA provision relating to collective bargaining. An employer organization, the Citizens Alliance of Minneapolis, fought vehemently for provisions to be attached to the so-called blanket code, making it clear that an employer could operate an open shop that would allow "the selection, retention and advancement of employees on the basis of their merit." Arguments over these and related issues continued to fester in this period.[8]

The business community blamed much of this tension on Franklin D. Roosevelt. John Sr. was temperate about the man himself: "He is an exceptionally likable man and honest, but he has no fundamental sense of economics and human nature. He has taken over a lot of theoretical university men as advisors who are not even considered sound by those university men who are outstanding in ability and reputation." John Sr. blamed most of the difficulties on labor, who "got entirely out of hand and demanded the maintenance of the highest labor scale plus reducing the number of hours worked to forty hours a week. It is making the cost of everything so great that neither the farmer nor anyone else can live."[9]

Overseas Travails

In the early 1930s, Cargill had moved perceptibly away from the dicta of John Sr., who wrote in 1927 about international involvement, "We have never engaged in the export trade, and do not expect to do so at present." Before the crash in 1929, John Jr. returned from traveling in Europe enthusiastic about the possibilities of both export and import trading. His first plans involved exporting rye and barley in a small way, "without stirring up the big three exporters, such as we would do if we started in Italy on durum." At this time, the well-established international grain traders Bunge y Born, Louis Dreyfus, and Continental Grain had major trading operations through most of Europe.

In November 1929, John Jr. posted the first Cargill employee abroad,

sending Leonard L. Corlett to Genoa, Italy. John Jr. cautioned Corlett to move slowly, "to absorb the atmosphere, perfect your Italian," and act as an on-the-scene listening post for the Company. In June 1930, Cecil C. Boden from the Omaha office was assigned to a newly opened Cargill branch in Rotterdam, Holland. John Jr. told him: "While ultimately we expect to have you doing a very large business for us . . . we wish caution to be the keynote." He also reiterated the long-standing company credo relating to ethical conduct: "We wish particularly to stress the fact that our future success abroad will depend entirely on our standing in the trade. The motto of our Buffalo office 'We deliver what we sell' is an excellent one to remember. . . . If through some error of ours we fail to deliver the quality guaranteed on a contract . . . we do not wish to try to cover up that failure but instead treat our customer in such a way that he is satisfied that we have treated him fairly. Our firm has always had a reputation for fair dealing and we regard it as our most valuable asset in business."

Finally, in January 1932, Cargill representation in Europe expanded to a triumvirate when Wallace W. Hyde was assigned to a newly established London office, to work there under Boden, who had transferred the Rotterdam operation over to London at this time. Later, Corlett was moved to Rotterdam.

John Jr.'s purpose in getting Cargill moving on these international efforts stemmed in part from his concern, expressed in the late 1920s, that some of the large international grain trading companies were moving in on United States companies. The president of Seaboard-Great Lakes Corporation, Horace J. W. Phillips, wrote John Jr. in April 1932: "Bunge and Dreyfus are daily getting more powerful, so much so that today they almost completely control the world's grain markets . . . as far as their influence in [the United States] is concerned we know that they have *not yet* gone into the interior." John Jr. knew, however, that both Bunge and Dreyfus were already in Duluth. "There can be no question," John Jr. answered, "about the desirability of our making connections that can offset some of these advantages."

Unfortunately, during the period of the federal Farm Board the opportunities for international trade diminished considerably. The United States pegged its prices well over world prices, which precluded much trading other than concessional selling by the Farm Board itself. John Jr., worried that the three Cargill men abroad would become disheartened, sent optimistic letters to them, but then decided to upgrade the New York office and brought Boden back from Rotterdam. Wallace Hyde took over for him, settling in London.

It was the opening of the Albany terminal, however, that finally galvanized Cargill to push exporting. This terminal was uniquely positioned for export/import business. Fortuitously, the opportunities for such trading stepped up in late 1932 and 1933. Yet John Sr., more conservative than John Jr. and growing continuously more so, still admonished everyone to move slowly. When Boden began to contact New York banks about financing international operations, John Sr. wrote one of the lead banks that "we look upon the consigning of grain abroad as a most hazardous operation in the grain business and we have no intention of making a practice of this excepting for such limited amounts as are necessary for the immediate requirements of our trade. . . . We look upon our Export Department as being valuable chiefly for the information we secure from it, and with the present state of disturbed world conditions, are decidedly anxious to minimize the volume of our business outside of North America."[10]

Polish Rye

When the banking crisis of the spring and summer of 1933 had been resolved and the surprisingly good showing of the Company for the crop year 1932–1933 had been confirmed, Cargill executives returned once more to exploiting the competitive potentials in the trade. One exciting possibility, thought John Jr. and Hendel, lay in trading rye—in particular, importing rye. Rye, domestic and foreign, had been a modest part of Cargill's business for a number of years. In the crop year 1931–1932, some 4.2 million bushels had been traded, and this had risen to 5.9 million in 1932–1933. In late fall 1933, Julius Hendel began buying rye to import into the United States, some from Hungary and some from Argentina but the largest amount from Poland. John Jr. bragged to his father, "We are buying them [the rye cargoes] at such a price that we can move them to Chicago via Montreal and still make 5¢ per bushel profit."

Brokers in the various exchanges, seeing the heavy trading in rye, were anxious to identify the source of the new action. One of Cargill's close broker friends wired Cargill: "Can you intimate to me without violating confidence, character or source selling in rye." Grimes wired back, guardedly, "I do not know the source of the trading in rye." The broker answered, "The reason I wired you on the rye is because I suppose on at least ten different occasions in the past ten days some of the boys in the rye pit have come over to me and said that Cargill was selling rye persistently in large quantities through Pierce and Lamson. Judging by your wire they have been making a bum guess on this. I cannot for the life of me figure out just what this selling is against in view of the hazards of contracting rye for importation, if the President should use his embargo authority under the NRA."

The President could indeed shut off these importations under his extraordinary powers given by the NRA legislation. However, despite pressures from domestic rye producers to embargo foreign rye, the adminis-

tration had not yet done so. Hendel and John Jr. continued trading the rye at profits upward of 5 cents per bushel all through this period, taking the chance that the importations would not be shut down. Grimes, in Washington ready to lobby against such actions, was nervous: "I think so far we have gotten away marvelously well, much to the chagrin of some of the rest of the trade." Nevertheless, he anticipated trouble if large amounts of foreign rye kept coming in the country. John Jr. replied, "The trade likes our foreign rye so I see no reason why we should not continue to import."

This profitable business continued through February 1934, and John Jr. wrote his father at the end of that month: "We have at last encountered competition on our foreign rye at the Atlantic seaboard, but that was to be expected and I really am amazed that we have had the field to ourselves as long as we have." At the end of February, the first problem surfaced. The United States customs held up the entry of a steamer with Polish rye already docked in New York "on suspicion that Poles are paying an export bounty which would bring the imports under the anti-dumping and export bounty provisions of the tariff laws." John Jr. quickly contacted Wallace Hyde in Rotterdam, who responded that it was the Polish government itself that was the seller and that no sales had been made under cost (a necessary fact to establish "dumping"). Ed Grimes immediately made this case to the Secretary of the Treasury, Henry Morgenthau, Jr., who was to be the final arbiter of the question. After a few weeks of worry for Cargill, Morgenthau ruled on April 10 in favor of the Cargill position.

But the opposition was not finished. Four days later, on April 14, one of the major New York papers sent out a wire story falsely reporting that some Polish rye in bond at the Cargill elevator in Albany had been quarantined because it contained some rodent poison pellets—if true, this would require it to be declared unfit for human consumption. Cargill immediately wrote the paper, asking for a retraction and threatening a libel suit. The newspaper promised to help Cargill trace the origin of the rumor, but such efforts are always exceedingly difficult, and nothing surfaced. Cargill sold the rest of its rye, the maligned shipment included, at a profit, but the pressures from domestic rye producers remained strong, and the Company pulled back from further importations. In early June 1934, the Rye Millers Association of America alleged a $10 million loss for domestic farmers on their rye and advocated new constraints on importations. In October 1935 the Treasury Department finally ruled that the Polish rye that Cargill had so effectively imported in 1934 was in violation of the United States antidumping legislation, and a countervailing duty of 37 cents per bushel was assessed in addition to the normal tariff of 15 cents. This was not retroactive, however.

While the Polish imports made anxious moments for Cargill, the profits

were spectacular. For the crop year 1933–1934, the total amount of rye traded jumped from 5.9 million bushels to over 11 million bushels. Inasmuch as the wheat volume was substantially down from the previous year and had been traded at a net loss of some $122,000, the large gross profit on rye (up from $298,000 to $1.4 million) gave the overall profit-and-loss statement of the company a great boost. Added to this was an equally spectacular increase in the trading of corn. Some 32.7 million bushels had been traded (from 20 million the previous year), and the gross profit jumped from $245,000 to $1.4 million. For the company as a whole, the gross income was $3.5 million, and the net earnings for the year $1,995,000, the largest in the entire history of Cargill to then.[11]

The Drought of 1934

Despite these stunning successes, both John Sr. and John Jr. remained unbendingly pessimistic about the overall economic situation. The former wrote a friend in July 1934: "I am seriously worried over the future of our country. The Constitution and all that it has meant in the development of the theory of personal liberty seems to be thrown into the discard." John Jr. had been asked whether the Company would again put out its economic forecast. He wrote one of Cargill's investment banking contacts in New York: "Last fall we had one all prepared as usual but inasmuch as no discussion could be complete without a full examination of the political situation we were afraid to distribute it. The present administration has such power, especially over those engaged in the distribution of agricultural produce, that we do not dare in justice to our stockholders make the criticism which any such discussion necessarily involves . . . the outlook for the United States is unbelievably dark until there is a return to political and economic sanity."[12]

There was room for further pessimism in the spring of 1934, for the country witnessed one of the most unforeseen agricultural turnarounds in its history. Through the winter and early spring, both feed and forage crops promised to be excellent. There had been some drought in 1933, but stocks of grain had remained high; and the Agricultural Adjustment Administration, now in its second crop year, assiduously encouraged farmers to sign up for acreage restrictions. These sign-ups were not as large as hoped, and expectations into April 1934 were for a substantial crop, lower prices and increased benefit payments in 1934–1935, with the likelihood of even more stringent acreage curtailment for 1935.

Soon, however, there were warnings of drought, and from late April onward, the threat loomed larger and larger. Worst hit were wheat crops in the Great Plains states and corn in the Corn Belt; both of these areas had the higher percentages of sign-ups for acreage restrictions. "Never

before, in the weather history of the United States," Dr. J. B. Kincer of the National Weather Bureau was quoted as saying, "has so little rain fallen over so wide a territory throughout the growing season as this year." An evocative recent *New Yorker* article captured well the drama of that spring: "In February, the wind began to blow, and the dust began to fly. In mid-April, a giant dust cloud, black at the bottom and tan at the top, rose from the fields of eastern Colorado and western Kansas and began to move south. . . . The storm left . . . drifts of dust six feet deep against the sides of houses. On May 10th, another dust storm came up, on a wind from the west. This one blew all the way to the Eastern Seaboard, and blocked out the sun in New York City for five hours."

Typically, drought does not hit winter and spring wheat in the same year, but this time it did. Corn and most other food and feed crops all were short. As Joseph Davis put it, "As far back as statistical estimates extend, we have no previous indication of comparable reductions in two successive years, or of such severe curtailment in a single year. In our previous history, very short crops of wheat and corn had never occurred in the same year."

The Agricultural Adjustment Administration now relaxed many of its restrictions, first by designating certain "drought counties," in which the restricted acreage could be put into pasture, then by a further set of steps that ended by removing all restrictions of any kind on the use of these acres for production of forage or pasture crops.

The devastation affected a wide area, from Texas to the Dakotas, converting formerly green agricultural lands into a huge "dust bowl." William Leuchtenburg painted a graphic picture: "The dry death scorched pastures and corn fields and turned plowed land into sand dunes. Farmers watched helplessly as cattle fell in their tracks and died. In Vinita, Oklahoma, in 1934, the sun topped 100° for thirty-five straight days; on the thirty-sixth, it climbed to 117°." Soon a veritable army of displaced small farmers and their families, called "Okies" because many of them came from Oklahoma where the drought had struck so heavily, were on the road traveling "somewhere" trying to find a new beginning.

The drought of 1934 brought home as no earlier experience had the critical importance of maintaining adequate reserves of actual physical grain in the Great Plains and other regions subject to the hazards of weather. Henry Wallace had long advocated such plans. He now revived his idea of an "ever-normal granary" in a speech given in June 1935. In this same period, special focus was also put on soil conservation; an act establishing the Soil Conservation Service was passed in April 1935.[13]

Most of the efforts under the Soil Conservation Act were noncontroversial. One plan, to build "shelterbelts" in the Plains farming areas to prevent wind erosion was criticized by professional foresters, one of whom called the plan's proponents "rattle-brained theorists." In truth, the shelterbelts worked quite well.

It was quite another thing with the ever-normal granary. Such a plan would involve managing supply in one way or another. Any deviation from "free enterprise" always brought hostile criticism from the grain trade. A number of respected economists, the Brookings Institution team of Edwin Nourse, Joseph S. Davis and John D. Black included, also were skeptical. Previous efforts of this kind, the critics held, had resulted in deterioration of the stocks and heavy financial charges. Wallace had compared the plan with the biblical story of Joseph in the land of the pharaohs, but the Brookings group felt this was an oversimplification, indeed a naive notion. Pointing out that the world's supply of food was accumulated over many countries with many agricultural systems, the Brookings authors averred that world production tended not to fluctuate as widely as the Wallace advocates assumed.[14] These were only the first exchanges of the long and acrimonious debate over the ever-normal granary, for subsequent developments under the AAA program kept the issue alive all through the second half of the decade.

Renewed International Interest

The success of the Polish rye trading, combined with the effectiveness of the Albany terminal, brought renewed enthusiasm from John Jr. about both importing and exporting. He wanted to use the Liverpool, Buenos Aires and Rotterdam futures markets as well as increase Cargill's merchandising of grain abroad. With this in view, the Company decided to incorporate companies in Argentina, England and Holland (it also considered Italy). John Jr. sent James Ringwald to Argentina. In England, John Jr. wanted offices both in London for making charters and in Liverpool for handling futures, but the futures trading in Rotterdam was to be handled by Al Greenman, who was already there. Italy was not as urgent, he felt, "as the Milan futures do not amount to much."

In this same letter, John Jr. mentioned a new idea, one of portent: "We also wish to buy our foreign grain such as our Argentine flax, South African corn, etc., f.o.b. steamer and charter the steamers ourselves, as in that way we can avoid telling the whole world about our every move." Once again, secrecy dominated.

Cargill's overall goals abroad and particularly the Company's basic ethical posture were set out by John Jr. in a communication to Ringwald in June 1934, shortly before the latter left for Argentina: "The first principle of our firm is that we decline positively to do business by bribery or any

other irregular means, and as in Latin countries most business is done this way you will be at a most distinct handicap, which however cannot be helped . . . The people with whom you will deal in general are high grade and exceedingly courteous in every respect. However, their standards of business conduct are substantially different from ours and they have not the same respect for faithful performance of contract that we have."

John Jr. had some strong feelings about the business system there: "They are going to want either a government interest in the new company or participation by influential natives in the new company This is impractical because of the impossibility of unscrambling the hedges on grain which must be owned by the operating company." Rather, John Jr felt that the most logical idea was the formation of an Argentine corporation with both common and preferred stock, with the preferred "to allow the leading natives of both parties" a chance at participation. All of the common would be held by Cargill.

Ringwald also began purchasing wheat for shipment to Albany. John Jr. was concerned that Cargill buy the best quality· "Buy f.o.b. steamer at those ports which serve the territory which happen to raise the best quality this year. In other words, we wish to resort to 'map buying.' " John Jr. himself made plans for traveling to Buenos Aires in late December 1934, to spend the month of January with Ringwald.

Meanwhile, over the late spring and early summer of 1934, Ed Grimes made an extensive trip to Europe to set up the new European offices. He reported back "Switzerland, Holland, Belgium and France and, of course, Italy are tightening up regulations on trade day by day. . . . A responsible organization that can handle a two-way traffic . stands a grand chance of making orderly progress in all of this present disorder" Much of this "disorder" was caused by the tensions in Germany. Grimes reported on his own impressions: "Saw a lot of Hitler demonstrations. . . . Hitler is determined to reduce imports . . . has this 'self-sufficiency' idea in mind. . . . The young people of Germany are undoubtedly behind [him]. You can see them in great groups marching and singing—along highways and in the streets. . . . The people in Italy, Germany and even in this republic [he was writing from France] with its slogan 'Vivre libre ou mourir' (live free or die) seem to be surrendering their freedom and liberty to a group of politicians . . . as completely controlled as the tyrants of old."[15]

John Jr., on the other hand, was far off the mark in his understanding of what was happening in Germany; he wrote his father on March 25, 1935: "The war scare in Europe has had us all anxious, but I personally cannot see any possibility of serious trouble . . . it seems to me that Germany is in such a weak position that she would be forced to give in on any act of a strong stand on the part of France alone. . . . Hitler has overplayed his hand . . . the French will probably insist upon his retirement."

The Omaha Explosion

There had been "considerable criticism" (John Jr.'s words) by the bankers of the unorthodox design of the Omaha and Albany terminals, particularly concerning safety. In an industry where there were potentially serious safety hazards, particularly from dust explosions, Cargill had remained remarkably free of problems with its country elevators and terminals. There had been serious fires in the past; Elevator T in Minneapolis, for example, had been severely damaged in early June 1933. But there was no explosion in that case and no loss of life.

Unfortunately, on November 23, 1934, the unthinkable did happen—a tremendous dust explosion tore apart the Omaha terminal *Cargill News* told what had happened in a long article that spared no details. "Reports from eye witnesses near the elevator state that they saw the immense roof rise and fall, and then a hole was blown through the roof, followed by flames and smoke and a terrific noise. The Fire Department and ambulances were summoned at once, and after a few hours' work, extinguished the fire."

Three men were dead, suffocated in the wheat, and several injured, largely from burns. When one of the New York bankers in the Chase syndicate wrote John Jr., "I know how badly you will feel about the deaths of your employees," John Jr. replied, "It was a terrible thing . the bright spot . . is that the Bureau of Mines Experts on Explosions have commended us for our precautionary measures and assure us that had it not been for the peculiar design of our elevator it would have been one of the worst dust explosions on record with probably not a man surviving, as was the case in the Northwestern [Armour] elevator explosion in Chicago 15 years ago."

The insurance company conducted an exhaustive study of the whole set of events. The explosion apparently had originated in the tunnel in the floor that was used to load the grain out. This is one of the most vulnerable parts of an elevator. The source of the spark was never fully determined. The insurance inspector's report made further suggestions about venting and raised the question of building cut-offs in the gallery and the tunnels. The inspector did indeed conclude that "this disaster has proved conclusively the advantages of this type of construction over the conventional elevator. Had this building been constructed with concrete covered bins and concrete roof, there is no question but that the loss to life and property would have been materially greater."

It took most of the winter and early spring of 1934 to repair the elevator, as it was damaged so seriously in the explosion. Cargill had estimated that the total damages came to some $1.5 million; there were some disputes on this figure with the insurance company, but the matter was finally settled.[16]

Once Again, Health Problems

In December 1934, John Jr. left with his wife on a long sea voyage to Brazil and Argentina. At the same time, John Sr. and his wife left for what was to be a three-month sea voyage to Asia. Cargill MacMillan was left in charge of the office (it was the custom that at least one of the three MacMillans always would be available at the Minneapolis office).

The currency markets, both domestic and foreign, were in considerable turmoil due to a knotty issue before the United States Supreme Court: whether the Government could repudiate the gold clause in government bonds. "When it was first announced that the case was before the Court," Cargill wrote his father, "there was an enormous amount of speculation in foreign exchange." This speculation directly affected Cargill Elevator, for the Company had a number of its hedges in foreign markets, denominated in currencies other than the United States dollars. Some Winnipeg wheat was in Canadian dollars; some Argentine wheat purchases had been contracted for in British sterling; some 4.5 million bushels had been hedged in Liverpool futures, also in sterling; and some contracts for rye were denominated in Dutch guilders and French francs. Cargill MacMillan felt himself on the spot—the decision on what to do was his, but any changes in the foreign hedges affected Julius Hendel's grain accounts. He described his dilemma to his brother: "The remote possibility that Congress might revalue the dollar downward has caused me to instruct Julius that I did not want an exchange position, which position should include foreign hedges in excess of our working capital. This means that Julius will probably have to unwind one of his spreads . . . which he hates like sin to do."

Cargill MacMillan stood his ground despite substantial internal opposition from the Company's grain traders. He wrote John Jr.: "Everyone, and particularly Julius, feels that I am making a mistake in reducing this position because they feel that all that is going to happen is that we will be whipsawed. I think they are right, but I don't see how I could justify leaving ourselves in a position where even a remote contingency might give us such a staggering loss. . . . They simply think that what we are doing will cost us a lot of money and that naturally burns them up. The worst part of it is that I cannot help but feel that they are right."

When the Supreme Court decision was handed down in mid-February, it was a compromise. The Court found the government's repudiation of the gold clause unconstitutional yet ruled that bondholders were not entitled to sue for reimbursement. The markets steadied, and the "gold repudiation crisis" was over. Cargill MacMillan gratefully wrote his father: "We went short a large amount of foreign exchange to protect our position. We are now in the process of covering this and instead of doing it at

a loss, as I expected, we are covering at a profit." John Jr., returning in early March, wrote his father: "Cargill certainly had a rough time while I was away. . . I cannot tell you how gratified I am at the judgment and skill he showed in the handling both of our foreign exchange and our hedges in the light of the uncertainties prevailing in the gold case. He showed great determination and initiative. . . . I am sure none of us need ever have any uneasiness about going away with him in charge in the future."[17]

Far more worrisome was another situation that faced Cargill MacMillan, in this case relating to John Jr.'s health risk as a "key executive" on the Company insurance policy. Initially, the problem was described as being the insurance company's unwillingness to write such large amounts of insurance. But there was an unexpected complication: "This is due . . . to something that Louie Daniel [not otherwise identified] did at nobody's request. He took upon himself to write a letter addressed 'To Whom It May Concern' and sent it to each of the eleven companies that were applied to. In this letter he gave a resume of your blood pressures over a yearly period extending from 1930 to 1934." Cargill MacMillan warned his brother, "When you are passing through New York on your way home you will be examined again, so watch your weight, etc."

But there was more to it than this, as John Peterson discovered on a trip he took to New York in order to talk with one of the insurance executives involved. He learned that while they felt that the policy was a proper insurable risk, that the amount was not excessive and that "the moral risk is of the highest grade," nevertheless there were, in Peterson's words, " 'outs' on John's physical condition. They had a file with a great deal of information—with a fairly extensive medical report including his case of influenza after the War, his years spent in the lumber camps, his periodic checking with doctors and his complaints at times." Peterson ended: "Coming to the point, it's a physical hazard, as they see it, not sufficiently attractive to warrant going ahead with a larger amount. . . . It did not look very encouraging." There is nothing in the remaining record to show precisely how much insurance finally was tendered by the companies.[18]

To complicate matters, in early June 1935, John Sr. became ill again. John Jr. wrote his brother, now on his own European vacation: "The worst bit of news I have for you is that father had a severe setback following his burst of activity at the office, and the doctors put him to bed for a period of four to six weeks. We are having a hard time keeping him there as he is showing great restlessness. . . . The exact cause is unknown but the doctors thought it was a combination of overwork, too much food (party), too much exercise, and the heat, but it has given us all a bad fright. . . . It is very clear that he tried to do too much during June at the office."[19]

John Sr. Scolds Guaranty Trust

The year-end figures for the crop year 1934–1935 had been more than adequate. Given the trying agricultural times, it would have been hard to have duplicated the previous year's $1,995,000 net earnings. For this year it was $944,000. Net worth, too, was again up—it was a satisfying year, given the substantial difficulties of the times.

Yet this did not lift the pall of pessimism that John Sr. now evidenced. One incident in particular epitomized this changed personality Undoubtedly preoccupied by his own health, John Sr. once again chose to reopen the wounds he felt he had suffered from the withdrawal of Guaranty Trust back in the bank crisis of 1933. John Sr.'s poor health seemed to combine with the memory of that trauma to make him querulous and self-pitying, accusatory and loose with the facts—traits so antithetical to his past behavior as to seem almost unbelievable.

In John Sr.'s records are two long letters, dated September 26, 1935, and addressed to the two officers at the Guaranty involved at the time. In these John Sr poured out his bitter feelings about the episode.

The longer letter was sent to E H. Rawls, the Guaranty vice president personally involved in the aborted 1933 relationship. John Sr. began with a lengthy description of how he had been "hastily summoned" to New York, despite the fact that he was "convalescing in Southern California from a prolonged illness." Rawls, "the first person that I went to see," had insisted that specific collateral for loans from each bank should be provided. But because of difficulties "with our many elevators located in so many places, handling so many kinds of grain," the other banks felt that the only acceptable way was pooling all the collateral. When John Sr. went back to Rawls, he found him "inflexible" and "the only banker" who felt specific collateral was the correct approach. "Your mind had become poisoned against us," John Sr. averred, and the Guaranty's opposition had "created" a most difficult problem. The ensuing three months "of about the hardest and most worrying work of my life" had thrown him into "a worse physical condition than ever," one that had just kept him away from work for three additional months. Along with the letter, John Sr. sent figures corroborating the two good years for the Company, to be "placed in your credit file of our name." Otherwise, "the letter itself requires no answer "

The second letter was addressed to W. P. Conway, the president of Guaranty Trust; its tone was more diplomatic, yet still quite defensive. "There never was a time when we could not easily have paid all we owed, but . . . we felt it would be poor policy to liquidate our stocks at the time stated. . . . I am proud of our record, of our organization and their achievements, and of my two sons. . . I've always valued your high opinion of us and I want particularly that you know the facts. . . . I was never so astonished and hurt in my entire business career."

There was no contrition in the replies. Rawls reminded John Sr. that "the circumstances as you state them are so incomplete and in instances contrary to the facts as now set forth in our file, that I cannot allow your letter to go unanswered." The actual crisis, Rawls stated, was on March 16, 1933, shortly after the opening of the exchanges following the bank holiday. On that evening, Rawls had helped John Jr. by providing and arranging loans with which to take care of Cargill margin calls. John Sr. had approved of and appreciated this and had written an associate of Rawls in April 1933, after the problems had been solved, "May I express to you and Mr. Rawls my very grateful appreciation of your exceedingly courteous and loyal support during very trying times." Rawls expressed sympathy that John Sr.'s health had been impaired but continued, "I am unwilling to assume any responsibility therefore, as seems to be implied in your letter, for the actual crisis in your business and the necessity for your return . . . was the result of your company's own financial policies with which we had no part in making."

Rawls was, of course, correct in his dates. John Sr. had stayed in California until well after the crisis had subsided, only coming to New York to learn of the details of the new Chase syndicate put together by John Peterson. John Sr. still seemed unable to accept the statement of Rawls and penned a short, one-sentence reply: "No one could have been finer than you were up to the time referred to in my previous letter and your subsequent complete shift in your treatment of us has been a constant wonder to us and we have been utterly unable to figure the cause."

The letter from Conway, the bank president, was considerably more diplomatic. He insisted that "we had gone out of our way to be of assistance to you in every way we properly could," and stated, "I am exceedingly sorry that you apparently feel the way you do in regard to this matter."

John Sr. never forgave the Guaranty Trust. As long as he lived, Company officers were not allowed to make any further inquiries about possible business with them. John Peterson, in talking within the Company about this, would state publicly (as he did in several of the Cargill executive training sessions) that it was Guaranty's choice not to resume relations; as he put it in 1949, after John Sr.'s death, "I might add a bit of interesting history here by saying that as the years have gone by, all of those banks that would not come into our picture in 1933 have seen the error of their way and re-solicited our business—but not the Guaranty Trust . . . the Guaranty Trust Company made a mistake and sits there like a colossus, silent as the Sphinx! We are perfectly happy to let them sit." He ended this with the implication that it had been up to him alone as to whether Cargill

would deal with a bank: "It has suited our convenience to have our former friends back in the fold." But in the case of Guaranty Trust, it surely was not John Peterson's choice; it was John Sr.'s—even after the latter's death.[20]

The Soil Conservation and Domestic Allotment Act

FDR was not to have his "breathing spell"—the Supreme Court saw to this. On January 6, 1936, the Court invalidated key provisions of the AAA and threw into panic its administering agency, the Agricultural Adjustment Administration. The heart of the Act, the processing tax, was declared unconstitutional. In one stroke, the Supreme Court had taken away a major fiscal source by which Roosevelt intended to pay for the agricultural allotments. Not only was the government deprived of upcoming revenues from future processing taxes, but it was ordered to return $200 million already collected. Needed at once was a way whereby the government could dispense continuing funds to the farmer while staying within the constraints mandated by the Supreme Court. By late February 1936, Congress had rushed the Soil Conservation and Domestic Allotment Act (SCDAA) into shape, and Roosevelt quickly signed it.

The central thrust of the government's aid to the farmers also changed. Rather than continued restriction of agricultural output on the crop-by-crop basis of the original AAA, the focus was on soil conservation. The great dust storms of the terrible 1934 drought, a pattern that continued through 1935, had stressed as perhaps nothing previously the need for saving the country's topsoil. The new program provided for benefit payments to farmers who practiced soil conservation in cooperation with the government. Now the involvement was based on the farmer's whole farm—one single decision, made in conjunction with county agricultural officials, in which the farmer agreed to withdraw from use certain percentages of the farm's "soil-depleting crops," such as corn, cotton, tobacco, wheat and oats. In return, the farmer was to receive compensation for efforts to check wastage of fertility and soil erosion. Provision was also made for sharecroppers and tenants to receive payments. The SCDAA was tailored to individual regions and, in the process, more directly to farmer participation. The administration had been upset by previous charges that the government's farm programs were authoritarian.

Because the SCDAA focus was on conservation rather than management of a physical quantity of output, Henry Wallace's ever-normal granary seemed put aside for the moment. In September 1936, however, Roosevelt wrote to Wallace that it was time to work out a permanent plan for such a granary so that surpluses of fat years could be carried over for use in lean years. What the President seemed to want was a system to protect consumers against shortages of food and skyrocketing prices while assuring good prices to the farmer. If another good year for agriculture occurred, yielding surpluses, the problem of sagging prices for the farmer would quickly come back—1937 turned out to be a year like that.[21]

Elevators for Argentina? For Russia?

In January 1935, when John Jr. traveled to Brazil and Argentina, a number of important bankers were on board his ship, including the head of the Buenos Aires branch of the First National Bank of Boston. "These bankers are certainly sold on the Argentine," John Jr. wrote his brother. By the time John Jr. had finished this visit, that enthusiasm had captured him. Cargill's James Ringwald, who had been posted to Buenos Aires the year before, was cautious about the Company's prospects, given the stranglehold on grain marketing held by the three private grain companies, Bunge y Born, Louis Dreyfus y Cia and Louis de Ridder. Bunge was the dominant firm, with some 43 percent of the total in the early 1930s. Nick Butler, in his book *The International Grain Trade*, wrote of this: "It is said in Brazil and Argentina that 'Bunge gives the farmer his credit, sells him his seed and buys his grain. And when the crops are in, Bunge sells the farmer the rope to hang himself.' " The whole scene seemed outmoded; as one observer put it, "The Argentine marketing system—or more correctly, the lack of system—make the nation an 'unsupervised playground' for three or four private grain companies. . . . The individual pampa farmer stood at the bottom of a financial pyramid over which he had very little if any control."

In the 1920s, the Argentine government had encouraged the building of country elevators, but the rather inefficient system of bagging grain at the railhead persisted. Indeed, just before harvest one could see huge piles of burlap bags, often 50 or 60 feet high, awaiting their use in the harvest.

Both Bunge and Dreyfus helped Ringwald when he arrived, but they made it clear that he was not to upset any prior arrangements by outbidding them. John Jr., however, suggested a new angle, namely, the possibility of actually constructing terminals in Argentina. He proposed that the Argentine government would be the owners, with Cargill making arrangements with a contractor under specifications from the government. These would be of the Omaha/Albany configuration; the Argentinians seemed quite interested and asked to have detailed plans and drawings of the Albany plant sent to them.

Ringwald estimated that the Albany plant could be duplicated in Buenos Aires for a cost of less than 45 cents per bushel, and he even had a contracting company standing by to build it. Unfortunately, he could neither get an answer from the government nor get the plans back. John Jr., suspecting that the Argentinians might go ahead on their own with the

Albany configuration, warned them (as he wrote Grimes) that "they did not [understand] well enough how to get the grain in and out of the large bins with a speed necessary for safety in case any of the grain started to heat. . . . It is doubtful if any firm other than ourselves could handle the grain at a cost low enough to make it attractive." John Jr. gave an ultimatum: "Either work with us in good faith or abandon entirely any thought of a structure similar to the Albany elevator."

Cargill's contractor blamed the Argentine obstinacy on a preoccupation with the country's hosting of an upcoming Pan-American Congress and additional time spent on settling the war between Paraguay and Bolivia. Whatever the reason, the Argentinians were not willing to make an agreement. John Jr. suspected a more sinister reason, writing his brother, "I think that Bunge's opposition was too much for us."

Ed Grimes had intimated as much in a letter to John Jr. shortly after a visit with the Argentine ambassador in Washington. "Matta said he did not see how Argentina could lease the property to us without inviting criticism from other grain merchants such as Bunge, Dreyfus, etc. . . Bunge and Dreyfus methods were unpopular with farmers and also with many government people but they were very powerful and influential nevertheless in certain circles and undoubtedly could block any attempt to turn this property over to us for operation."

Cargill also had a long-standing commercial relationship with Bunge through its North American office in New York City, both selling to and buying from them. Now there were intimations that Bunge was undercutting Cargill in the United States on some of its bids. C. C. Boden contacted a Bunge officer, only to be told that Bunge was "only making small sales and not spoiling market and will continue. . . . If we discriminate against them or threaten retaliation, he will cut wide open everywhere."

Cargill at this same time was attempting to break into one or another of the North Atlantic ports, and once more had encountered what John Jr. felt were Bunge machinations. He wrote Ed Grimes in July 1935: "We have had quite a little trouble with Bunge lately over their financing some few fly-by-night concerns on the coast. I am inclined to think that we will have to stop buying from them for a while to bring them to time." John Jr. appeared increasingly harassed by these competitor inroads and ended the letter to Grimes: "It seems to me we never cease having a row with someone, but I suppose that is inherent in business." At this point, John Jr. gave up on the Argentine elevator proposal, recalled Ringwald and sent a new man, Don Williams, head of the Export Department in the Minneapolis office, to staff the operation in Buenos Aires.[22]

A few months later, in May 1936, a Russian commission visited the United States to investigate possibilities of Western elevators being built in the Soviet Union. Late in that month, the director of the "Grain Elevators, Flour and Grit Mills Trust" of the Soviet Union visited Cargill's Albany plant. The delegation expressed considerable interest and invited a proposal from Cargill.

By July 1936, John Jr. and Frank Neilson had developed a four-page proposal for the possible construction of 100 terminal elevators in Russia, each of 3-million-bushel capacity, and an additional 1,000 country elevators, each with 375,000 bushels of capacity. The total cost of these, John Jr. estimated in his letter, would be $255 million; however, "we are inclined to believe that introducing the economies which we can effect by our methods of design, and after making allowance for our own engineering fees, we can reduce the cost of this program to you by approximately $100,000,000, making the total cost $155,000,000."

John Jr. illustrated the cost savings of the Cargill elevators by an example.

> The Cargill Albany and Omaha plants [should be compared] with the one Cargill also operates belonging to the Chicago & North Western Railway at Chicago, Illinois, of 10,000,000 bushels capacity, costing originally nearly $6,000,000 [Cargill's acquisition of this is discussed in the next chapter]. This plant was not of Cargill design. The Chicago & North Western elevator requires 182 men for full operation and the minimum crew which can be used and still do any business at all is 63 men. At Omaha, in an elevator of the same size, the maximum number of men required is 20 and the minimum crew 8. At Albany, the largest plant of them all, the normal crew is 20 and the largest number ever required has been 44.

The power requirements were cut by 50 percent in the Albany and Omaha elevators, John Jr. also asserted. "In no other elevator in the world of which knowledge is available," he ended his argument, "is it possible to turn a million bushels of grain in a single night."

The actual comparative figures for Cargill costs, terminal by terminal, were considerably less striking than John Jr. stated. It was true that in the previous crop year Omaha did have the lowest cost per bushel handled of all 12 of the Company's major terminals for both unloading and loading grain. But Albany's was the highest for unloading and ninth for loading.

Whether because of John Jr.'s bargaining strategy or because of the startlingly large total cost figures, or perhaps for some other reason, the Russians did not follow up on the proposal, and the whole project died.

These two unconventional proposals, juxtaposed as they were within months of each other in 1935–1936, did give the Company a chance to bid on actual overseas operating proposals (up to this point, the Company offices abroad had been used only to gather commercial intelligence and to do some trading). Early, firsthand market information from Cargill's own people abroad was proving to be a major competitive tool. John Jr. wrote his father of one of these cases: "Our Buenos Aires office proved its value yesterday . . . they advised us of tremendous strength in their mar-

kets after our markets had closed. We immediately told the Pacific Coast to be very aggressive in picking up cash grain . . . we accumulated 100,000 bushels at only a shade over the current price yesterday, and of course the market opened up 2¢ high this morning. There is no question but . . . that the broader your contacts the better off you are in the grain business."

Later, after World War II, full-scale operations were begun in Europe, and there was another Argentine proposal in the early 1950s. Nothing more was heard from the Russians about any kind of an on-site operating relationship until the late 1980s.[23]

Innovating with Alfalfa

The restless mind of John Jr. often seemed to work best while on vacation; this seemed particularly true when he was at sea. If there was a strong personality aboard with whom John Jr. could interact, this often stimulated the juices of innovation. Just this combination of stimulating people and isolated location occurred on John Jr.'s trip to Jamaica in January 1936. Aboard ship he met a senior officer of Imperial Chemical Industries Limited (ICI). From him, John Jr. learned of "the most revolutionary thing in agriculture since the invention of the binder," that grass, if cut before it jointed and dried to under 3 percent moisture within 6 hours, "is twice as good an animal food as corn, and takes the place entirely of high protein concentrates, such as oil cake, fish scraps, etc."

Alfalfa was widely grown in Montana. Excited about the possibilities of building a large alfalfa drying plant, John Jr. wrote his brother: "Please ask Julius to have his boys get all the available material on the protein content of grasses 6 to 10 inches high and ask Frank or Hayhoe to dig up all available literature on grass dryers in the U.S." (John Jr. was a bit lost in his terminology here—alfalfa is a leguminous plant.)

Overall, Cargill business was not good in the early part of 1936. Nevertheless, when John Jr. returned to Minneapolis, he immediately made plans for an extended visit to Valier, Montana, to arrange the establishment of an experimental plant for the alfalfa project, the trip also to include a visit to Seattle for arranging sales of the resultant alfalfa meal. This contact proved promising, and John Jr. wrote the local Valier manager: "There is therefore no question of our market. It is purely a matter of the price at which we can produce it. This being the case, I think we are quite safe in pushing boldly our acreage to be available a year from now."

By mid-1936, John Jr. had hired a graduate chemist to work in the just-completed Valier alfalfa drying plant. John Jr.'s letters during this period were full of plans about the project, not just the overall concept but all of the details. The first alfalfa crop was available before the dryer was finished, and John Jr. personally managed its testing: "Run a small sample of your ground alfalfa through the hand rolls about four times and then dry this within an hour or so after running it through in the oven at your home, then fill one of these cans with this dried stuff, label it so we will know which it is and we will have it analyzed here for vitamin content." John Jr. was worried that "all of the valuable vitamins might be in the juice."

By the end of the season, the experimental plant had been developed well enough to send off over 800 tons of dehydrated alfalfa, and the operation in its first year showed a small profit. While the Valier operation continued modestly successful, it was a small part of the larger Cargill picture. In the broader sense, however, it was a major conceptual step for the Company, soon leading to a significant line of feed.[24]

The Soybean Arrives

In mid-1936, the Chicago Board of Trade initiated a soybean futures contract. In his annual report Robert P. Boylan, the president of the CBOT, was frank in stating that the soybean contract "has been put forth to find new sources of revenue" for the Exchange but was also "another justification of futures markets which in general measure values over a considerable period of time rather than with respect to the day by day changes." "Soybeans have tremendous income possibilities," *Northwestern Miller* had predicted early that year. The editors pointed out that soybeans ranked fifth among grains in farm value in 1935, exceeding for the first time the sums received by farmers for rye, for flaxseed and for rice. Corn, wheat, oats and barley, the "big four" of that period, had higher totals.

Cargill first purchased and stored some soybeans in 1935 and continued the same small effort in 1936, although none remained in the inventory at the end of the year. John Peterson wrote a Chase National Bank officer: "This year we have bought and sold some, more from the point of getting an education and a feel of the business than as a means of moneymaking. From the standpoint of storage experience, ours is practically nil."

Peterson was not optimistic about Cargill's future in this trade. He continued: "I understand . . . that the principal market for the soy bean is in the hands of big fellows like Archer-Daniels-Midland, A. E. Staley Manufacturing Company, Allied Mills, the Glidden Company and Spencer-Kellogg." There seemed little doubt, however, that the soybean was to be a major crop, and Cargill needed to become further "educated" about its possibilities.[25]

The Drought of 1936

The 1935 wheat crop had been only a little larger than that of the drought year of 1934. North American spring wheat had had rust, and the winter

wheat harvest east of the Rockies also was much below average. Thus, the wheat supplies for 1935–1936 were the smallest since 1927–1928 although still much above the normal level. The corn crop then was also a little larger than in 1934 but otherwise the shortest since 1881. The average supply of all feed grains per grain-consuming animal unit on the farms was only .691 ton, barely three-fourths of the average of the surplus years 1928–1932.

Cargill MacMillan predicted that the last four months of this 1935–1936 crop year could turn things in either direction. Unfortunately, the outcome was discouragingly negative. The firm's terminal grain accounts had lost almost $1.3 million; the country lines, an additional $132,000. There were offsets, but the final accounting was a loss of over $972,000. However, the regular common stock dividend of 7 percent was paid. With later adjustments, the firm's net worth dropped about $498,000, leaving it at just over $8 million.

Bert Lang, when sent the financial statements, wrote John Peterson:

"Farmers praying for rain, July 14, 1936." Shown are members of the Holden, Minnesota, congregation of the Norwegian Lutheran Church (Minnesota Historical Society)

"Frankly I should not have been surprised had your losses been doubled, for with all of the vicissitudes which surrounded the grain market during the entire period under review, losses were almost inevitable." Peterson wrote a Chase National officer: "I suppose of all of the depression years we ought to experience one if for no other reason than that of giving us the proper degree of humility in the face of the forces over which we don't have any control." While humility was neither Peterson's nor John Jr.'s forte, the sobering results calmed some of the expansionist mentality, particularly that of John Jr. Indeed, there were cutbacks. For example, the Montreal office was closed altogether, a move dictated in part also by the increased use of the Erie Canal for Company grain shipments abroad.[26]

Early prospects for the 1936 harvests suggested a crop of moderate size, roughly the average for the five preceding years. Then, suddenly, the situation changed. The *Wheat Studies* editors captured the unfolding drama: "In June–July 1936 . . . the crop outlook changed radically for the worse. Scorching heat and drought wreaked havoc in the North American spring wheat belt, and made certain that crops would be very short almost throughout this region. In Southern Europe and French North Africa, crops continued to deteriorate, with excessive rainfall. . . . The summer weather in most of Europe was not such as to favor good yields . . . in the USSR, following retarded sowings because of the late spring, drought devastated spring-sown wheat. Excessive rainfall curtailed sowings and promoted weed growth in Argentina, while the Australian crop suffered from prolonged drought."

With wheat prospects so poor, Cargill was particularly interested in what would happen to corn. Beginning in early July, Daniel MacMillan began to travel the cornfields all through the Middle West, sending daily telegrams to John Jr. For years, Uncle Dan had been undisputedly the best of Cargill's crop observers; his telegrams chronicled a rapidly deteriorating situation: (July 17, Illinois) "Would not be surprised if a large proportion of fields . . . would not ear at all." (July 30, Iowa) "state a washout." (August 12, Illinois) "Immediate rain necessary to save anything at all." (August 18, Iowa) "From Burlington to Oskaloosa corn crops virtual failure." (August 20, Iowa) "Two fields of early sown this afternoon . . . not over five bushels for each." In sum, the 1936 drought was as severe and as devastating as that of its 1934 predecessor.[27]

Back in that earlier year, first priority was relief for distressed cattle farmers, whose animals were starving to death. In June 1934, the government had offered a buy-out plan that allowed the farmers to keep their foundation herds and to tender the remainder to the government for slaughter. By the end of 1934, the number of cattle on farms had been reduced from 74.4 million to 68.8 million head.

It seems we eat only at the second table.

Ding Darling, August 10, 1937 (by permission of the University of Iowa Libraries [Iowa City]).

For the animals remaining in 1935, the same danger arose—lack of feed. Feed grain supplies had been so decimated by the drought that it was inevitable that some imported feed grain would be needed. This flew in the face of farmer and governmental fears about foreign competition. Already there had been renewed restrictions, for example, the government ruling on Polish rye.

In 1936, feed grains were still desperately needed, but the government remained concerned that imports would compete with domestic grains. Low-grade (often frost-damaged) wheat could still be imported as feed grain, at a lower tariff. These had to be designated "unfit for human consumption," but the government worried that this would be mixed in with good wheat and be sold for milling purposes.

Grimes personally attempted to move Secretary Wallace from his fixed position on limiting feed grain imports. In the skillful Grimes manner, he

Oh, what will the harvest be?

Ding Darling, July 31, 1936 (by permission of the University of Iowa Libraries [Iowa City]).

ended his letter: "Knowing your keen interest in the feed situation in the United States, we are bringing this to your attention and respectfully request an expression of opinion from you." Wallace replied two weeks later that he "would hardly be warranted in attempting to classify this wheat," that it was up to the Commissioner of Customs.

To Grimes, this was passing the buck, and he once more urged Wallace to reconsider. The Secretary, in a blunt letter on November 27, 1936, denied the request once again and added that if Grimes was still dissatisfied, "you file a protest . . . against the liquidation of the duties and thus have the question reviewed by the Customs Court." Grimes dropped the matter as a lost cause. After a few months, the government relaxed its constraints, and more than half of the imports came in as feed wheat on a 10 percent duty (the regular duty was 42 cents per bushel).[28]

These arguments on the feed program paled in comparison to an acerbic

argument in 1936 relating to seed. The spring wheat disaster due to the drought had been followed by the equally severe blow to corn. Farmers all through the drought belt simply had no seed corn for planting for 1937. The government then decided upon a federal program to relieve this distress. The Reconstruction Finance Corporation provided a $10 million grant, the Commodity Credit Corporation was to handle loans to the farmers, and the Agricultural Adjustment Administration was to administer the program.

The role of the Agricultural Adjustment Administration quickly drew resentful opposition. Notwithstanding heated remonstrances to Henry Wallace by the private grain trade, the Secretary decided that the entire program would be administered by Farmers National, the very same cooperative that had been given the inside track in the federal Farm Board program of 1930–1931. Farmers National had gone through distressed times since the demise of the Farm Board; in effect, it had gone bankrupt in 1935. Bailed out by the government, it was operating under the supervision of the Farm Credit Administration. The Grain Committee on National Affairs, speaking for the trade in August 1936, railed: "This is the rankest kind of favoritism against independent cooperatives and the private grain trade . . . outrageous favoritism . . . a complete breech of faith."

Despite lobbying by the industry, Secretary Wallace stood fast. Announcing the program on September 16, 1936, he seemed unwilling to admit publicly that Farmers National was to be the selling agency, dodging the issue in the press release by saying only that "field work in connection with the program will be supervised by the AAA." Subsequently, the administration did purchase some of its seed corn from the private sector, but most of the business went to Farmers National.[29]

Notwithstanding the industry's lost battles with the government, the overall grain trade picked up during the fall of 1936, and the crop year 1936–1937 later turned out to be excellent. Early in the fall of 1936, John Peterson pushed the bankers from the Chase consortium to increase the total amount of credit. An additional $5.4 million was granted by a subgroup of some of the banks in the consortium. Peterson sent letters to all of the banks granting increases, giving his version as to why the others did not join, masterfully implying that they had not really turned Cargill down but that other "circumstances" had precluded their increasing the amount. Later, when a Baltimore bank wanted to join the consortium, Peterson turned them down: "I wish that I could see my way clear to put you folks in the credit. It is, however, very doubtful whether I can. Old loyalties, like old names, old homes and old splendors, have their call upon whatever business we have to offer. . . . Right-of-way must be given to the banks already in our picture."[30]

The 1936 Consolidations of Cargill, Incorporated

There had been a substantial constellation of Cargill companies for many years past—separate corporate entities in states or countries requiring them, separate companies to hold terminal properties, the Cargo Carriers Incorporated (CCI) for transportation, and so on. Most of their transactions were consolidated into one financial statement at the end of each year. A few (such as the Itasca elevator corporation in Superior, Wisconsin) were separate corporations even for closing statements and therefore for income tax purposes. Losses from the parent company could not be applied against these unconsolidated, wholly independent operating companies. Beyond tax considerations, there were other reasons for simplifying the corporate structure. For example, the existence of separate companies within the overall parent made for some confusion in qualifying for such things as membership in exchanges.

In January 1935, some initial consolidations and dissolutions were made. The Cargill Commission Company was dissolved, and its business was taken over by the Cargill Grain Company, a new entity. The Cargill Warehouse Company was established (and became the parent for Cargo Carriers), and there were other minor name changes. Yet to outsiders, and sometimes to insiders, there remained confusion about the relationship between and among all of these units.

This issue gained a higher profile in February 1936, when the Federal Trade Commission (FTC) stepped into the scene. The FTC at that time was conducting a very extensive investigation of a number of industries, the grain trade among them. The lawyers of the Commission approached Cargill for information with the hope that this would be tendered by the Company voluntarily. John Jr. wrote his father: "The Federal Trade Commission has come in, pursuant to a resolution of Congress, and asked for all kinds of information as to earnings, salaries, etc., which obviously can be used for mudraking [*sic*] purposes. I am urging that we take the position that we will exhaust every legal recourse before complying, and Dorsey has promised us an opinion as to our rights sometime today."

The Dorsey law firm, however, urged John Jr. to comply. Subsequently, in doing so, a question came up as to whether the FTC wanted just the parent-company data or information on some of the less directly grain-trade companies, such as Cargo Carriers. The FTC did indeed request these statistics, and Cargill reluctantly tendered them. But this interchange pointed up once more the difficulties caused by the complexity of Cargill's organizational structure. The passage of the Wealth Tax Act of 1935, the "anti-business" tax law of Roosevelt (or so business felt, at least), had exacerbated concerns on the part of the business community, and Cargill

in turn, about corporate taxation. Cargill MacMillan, for example, had continued to explore his notion of a wholly independent foreign corporation. Concerned about both state and federal taxation, he wrote outside counsel James Dorsey: "If we are forced to move from Minnesota, it may be only a short time before we may be forced again to move from the United States." Guernsey in the Channel Islands still intrigued him, and he made a personal visit there in November 1936, but no decision ensued at that time.

So, for these and other reasons, the Cargill executives finally made the decision in mid-1936 to fundamentally reorganize the entire Company. The details of this reorganization were complex; its essence can be stated as follows:

1. The Cargill Warehouse Company, titular holder of several of the Company's elevators, was liquidated, the Cargill Elevator Company now becoming their owner.

2. The Cargill Elevator Company, the Cargill Grain Company, Cargill Elevators Incorporated, Cargill Sales Company and the Itasca Corporation were merged into one entity, the Cargill Elevator Company.

3. Cargill, Incorporated, a Delaware corporation, would then have its Articles of Incorporation amended so as to bring the share structure into congruence with Cargill Elevator Company; at this point Cargill Elevator Company and Cargill, Incorporated, would be reorganized so that Cargill, Incorporated, would assume all of the liabilities and assets of the Elevator Company.

The reorganization essentially left the ownership structure almost as before. There was a small shift in that the owners of Itasca (somewhat fewer than held Cargill Elevator stock) had to first be given additional shares, as some Cargill Elevator shareholders had not chosen to subscribe to Itasca at the time it was formed.

The Company had not really changed structurally—the business was the same and the ownership interests essentially the same. From a tax standpoint, all entities were now under a common umbrella. It was clear, too, that the parent company was now Cargill, Incorporated. The Cargill Elevator Company, that name so well known and so central to all of the Cargill interests, was now reduced to a nonoperative subsidiary of Cargill, Incorporated. Indeed, it was needed only long enough to take care of necessary transfers of authority. An important one was to shift the entire Chase consortium arrangements to Cargill, Incorporated. There were also many lesser transfers—even the stationery needed to be changed. Nothing could obscure the fact, however, that a psychological milestone had been passed with the operational demise of Cargill Elevator Company, the guiding entity for Cargill since 1890.

There was one other major outgrowth of the 1936 reorganization. On December 1, 1936, John MacMillan, Sr., tendered his resignation as president of Cargill, although he did retain the title of chairman of the board. At the same time, John Jr. took over the post of president. The role of treasurer, held to this point by John Jr., was assumed by Roy Hoople. With Cargill Elevator no longer the actual operating company, the cadre of vice presidents had to be transferred to Cargill, Incorporated. The list included Cargill MacMillan, Ed Grimes, Daniel MacMillan, Frederick Lindahl, John Peterson, Julius Hendel, Austen Cargill, Frank Neilson, and C. C. Boden.

Of all of these shifts in organizational titles, John Jr.'s was by far the most important. In the role of vice president and general manager, he had been the day-to-day operating head for a several years. Yet in terms of relationships with outsiders (banks, governmental agencies, etc.), the fact that there was one further step to the president was probably an important element. The reality of command had been John Jr.'s for many months. John Sr. wrote a friend on December 7, 1936, about the change in jobs and confirmed this: "The fact that Junior was made President of Cargill, Incorporated was merely a recognition of what has been an actual fact for a long time. There is really no change in the situation, although I do think it will make it a lot easier for me to have him have the title as well as the responsibility."[31]

Borup, Minnesota

CHAPTER TWELVE

The Great Battle with the Chicago Board of Trade

A string of related clashes between Cargill and the Chicago Board of Trade in the second half of 1936 came together as a backdrop for even more serious confrontations between Cargill and the CBOT in the three years that followed. Eventually, two landmark Commodity Exchange Authority (CEA) cases were tried on the issues involved. These events, consuming four years of Company energies, came to be known as "the Corn Case." It was Cargill's most renowned litigation—indeed, also one of the two or three most famous cases for the CBOT in its own long history.

After Cargill had gained a physical foothold in Chicago in 1931 with its terminal, CBOT officialdom became more inquisitive about Cargill's operations. In July 1932, it made inquiries about grain stocks in the new terminal at Albany. Grimes answered at that time: "This elevator will not be a public house and it is not our plan at the present time to give publicity to the stocks of grain that we are carrying." In November of that year, a more serious issue arose, and this time Cargill chose to contest a CBOT ruling. The CBOT directors had ordered members holding a net short position exceeding 500,000 bushels in any one future in wheat, corn or oats (200,000 bushels for rye) to indicate whether the short position was a hedge, a spread or a speculative short sale. If it was a spread, the name of the market and the future in which the long position was carried also was to be reported.

This distinction between hedging and spreading was an important one. While a hedge with offsetting positions was designed strictly for price movement protection, the spread had speculation built into it, with the hope that the relationship would change in such a way as to make a speculative profit *on the spread*. This involved less risk than a "naked" speculative position on one side of the market. Nevertheless, spreading typically involved motives different from those for hedging. At this time, John Jr. and Julius Hendel were taking many spreads, trading on them for profit. Disclosure would have been detrimental to such an effort.

Cargill argued that as it dealt through a wide number of member firms, with the limit amounts not reached at any, it did not need to report. This argument immediately was rejected by the CBOT. This irritated John Jr., and he wired Grimes: "It is none of their business whether our short Chgo position is against cash and contracts for future delivery on which we intend to take delivery, or against cash only . . . we must decline positively to disclose as a matter of routine any detailed analysis of our position."

The CBOT officials then threatened to take action against Cargill, and John Jr. wired Grimes again: "The Secretary of Agriculture [Henry A. Wallace] has no authority to ask for [this] information . . . we cannot see any legal or moral right on part of B of T to ask for more than the Secretary can do. We suggest as a compromise that we submit the matter to the Secretary of Agriculture." The Exchange officers decided not to call John Jr.'s bluff and on January 4, 1933, rescinded the whole proposition—only the net short position would have to be reported.[1]

Although John Sr., as an individual, had held a membership at the CBOT since 1909, and Philip C. Sayles (the Company's Chicago manager) had held one since 1931, Cargill as a corporation was precluded from certain important membership privileges under CBOT Rule 313, which covered the critical Clearing House function (the reconciliation of all of the activity on the trading floor during the day). Rule 313 was particularly galling. In early November 1929, just after the crash, the CBOT had amended its membership criteria to exclude corporations from membership in the Clearing House unless they had already been members of the Clearing House on April 2, 1929. The stated reason for this change was that corporations had limited liability, and in the case of bankruptcy (then more of a threat, perhaps, because of the depression), full restitution of the creditors might not be easy. Cargill disputed this assertion, quoting the CBOT's own statistics that of the total of 50 failures that had occurred at the CBOT from 1880 to the April 2, 1929, date, only 4 of these had been corporations. Cargill officials believed, rather, that it was simply a case of the CBOT members disliking to give up the commissions paid by corporations, and in the case of Cargill, these amounts were large by this time.

So Cargill had to clear all of its trades through one of the CBOT's member companies (all individually owned or partnerships). Cargill paid full commissions to them for this service. Nor were these commission costs the only irritant. Both Clearing House functions and many other operations in the Exchange involved highly competitive interactions among all of the traders, which depended on confidentiality at all stages. The integrity of the trading process had to be accepted absolutely by everyone, or the system rapidly would break down. With their passion for secrecy, both John Sr. and John Jr. truly believed that their competitors were being given Cargill proprietary information, to be used for unfair competitive trading purposes.